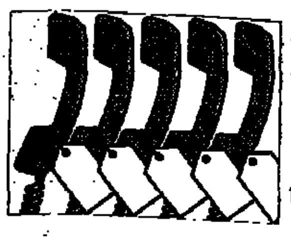

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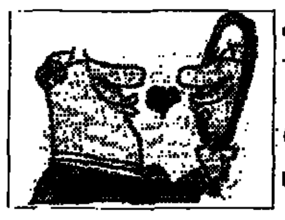

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FINANCIAL TIMES

Europe's Business Newspaper — MONDAY OCTOBER 11 1993 — D8523A

Truce in Somalia as UN and Aideed await US envoy

Somalia's rebel faction leader, General Mohammed Farah Aideed, and United Nations soldiers observed an uneasy truce in Mogadishu as they awaited the arrival of Robert Oakley, US president Bill Clinton's special envoy, to negotiate an end to the fighting. In Washington, secretary of state Warren Christopher said the US was "going to try to use the African leader's assistance to try and devise an African solution to an African problem". But US policy on whether to involve Gen Aideed in these talks was unclear.

Yeltsin takes over regions: Russian president Boris Yeltsin placed all councils in the power of regional administrators in a further effort to rid himself of institutions and movements which could challenge his presidential rule. Page 14; Icy handshake for Yeltsin, Page 3; Can Yeltsin be a democrat and a reformer?, Page 4; A navy all at sea, Page 12; Observer, Page 13; Nato's growing pains, Page 28

Mexico threatens Nafta treaty: Mexican president Carlos Salinas, who is seeking to end more than a year of uncertainty about ratification of the Nafta free trade agreement with the US and Canada, said if it was not secured by the beginning of next year it would be lost. Page 14

Bhutto's party strengthens hold: Benazir Bhutto's ability to form a government in Pakistan was strengthened when her Pakistan People's party won a narrow lead in elections in Punjab where her rival, Mohammed Nawaz Sharif, has been chief minister. Page 4

Delors sees EC growth after two years: The European Community faces two more years of low growth, but could have falling unemployment and 3 per cent annual growth after 1995, Commission president Jacques Delors said. Page 2; Editorial Comment, Page 13

Italian minister quits: Italian industry minister Paolo Savona resigned after a public row over how the country's privatisation policy should be conducted.

EC countries differ on drug spending: Some European governments spend twice as much on medicines per capita than others without their citizens living longer, research has shown. Page 2

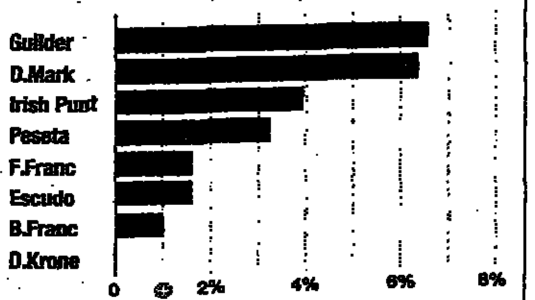
Airline talks make progress: Negotiations which could lead to a merger of airlines Swissair, Scandinavian Airlines System, KLM Royal Dutch Airlines and Austrian Airlines will come to a head tomorrow now that the four have agreed on how to value their stakes in the partnership. Page 14

Libyans advised against Scots trial: Lawyers for two men accused of planting the bomb which blew up a Pan-Am jet over Lockerbie, Scotland, in 1988 advised their clients against standing trial in Scotland. UN moves to tighten sanctions against Libya could go to a vote within days. Page 4

US-Canadian venture into Chilean copper: A US-Canadian consortium of Cyprus Minerals Company and Lac Minerals is to pay up to $555m for a 51 per cent stake in Chile's El Abra copper mine, making the project the country's biggest foreign joint venture. Page 18

European Monetary System: The Dutch guilder remains the strongest currency in the system with the disparity between the Danish krone, the grid's weakest member, growing last week to 6.54 per cent from 6.11 per cent. However, the focus this week is expected to be on the D-Mark as Germany's constitutional court rules on Maastricht. Currencies, Page 25

EMS: Grid October 8, 1993



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

Hoechst, troubled German chemicals group, is bidding for its first stake in the North American generic drugs market with a $550m offer for 51 per cent of Copley group of the US. Page 15

South Korea braced for deadline: South Korea's deadline for converting false-name accounts into their owners' real names expires tomorrow and some analysts expect a massive withdrawal of funds by people wanting to hide their money from tax collectors. Page 4

Call for end to charities' tax relief: British charities should lose their automatic right to tax relief, according to a Home Office-sponsored report to be published tomorrow.

Computer bites: Children's computer games are the latest advertising medium for snack food manufacturers, who will pay up to $75,000 for inclusion in one of the top 10 selling games. Page 5

Austria	Sch30	Greece	Dr300	Lux	LFr65	Qatar	QR12.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 3.75	Slovak Rp	KSL45
Cyprus	C£1.00	India	Rs40	Nigeria	Naira45	South Africa	R12.00
Czech Rp	CZK45	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta210
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Sweden	SKr15
Egypt	E£4.50	Japan	Y500	Pakistan	Rs35	Switz	SFr3.20
Finland	FM12	Jordan	JD1.50	Philippines	Pso45	Syria	S£50.00
France	FFr8.00	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250
Germany	DM3.30	Lebanon	US$1.25	Portugal	Esc215	Turkey	L8000
						UAE	Dh11.00

Russia puts price on ultimate MiG flight of fancy

By Richard Tomkins in New York

HAS THE child within you always hankered after being a fighter pilot? Now's your chance. In one of the most bizarre instances yet of Russia's appetite for foreign currency, tourists are to be allowed to fly supersonic sorties over Moscow in Russian warplanes – at a price.

While strafing the Russian capital will not normally form part of the deal, anyone with at least $5,895 to spare can choose from a range of packages that will put them at the controls of jet fighters including the MiG 29 over Russia at speeds of up to 2½ times the speed of sound.

The more expensive packages, such as the $13,845 Military Adventure Programme, include add-ons such as the opportunity to operate and fire a Kalashnikov assault rifle, a rocket-propelled grenade launcher and a T80 turbine-powered tank on a St Petersburg firing range.

At the top of the range is the $45,000 Ultimate Flight Programme, in which the tourist and his/her partner or spouse are trained in aerial combat.

The programme ends with a dogfight between the two, the winner receiving a silver-plated "Top Gun" helmet signed by all the MiG test pilots at Moscow's Zhukovsky military air base.

The packages are being offered to western tourists through a newly formed company called MIGS Etc, based in Sarasota, Florida. Its founder is 30-year-old Mr Kent Ertugrul, a flying enthusiast until recently in the computer software business.

The first national newspaper advertisements for the trips began to appear last week. Since then, MIGS Etc says, its telephones have not stopped ringing.

Mr Ertugrul said he had the idea during a visit to Moscow when he found that the Russians had been selling military flights to the public on a small scale for a year or more.

He took a flight in a MiG 29, considered the experience "indescribable", and immediately started negotiations to sell the flights abroad.

Mr Ertugrul believes there is a large market for the tours in the US, Europe and Japan among people who fantasise about what it would be like to fly a jet fighter. Mr Ertugrul emphasises that tourists will be accompanied by top Russian test pilots and will fly well within the performance capability of the aircraft.

Even so, the MIGS Etc brochure says participants will be required to sign a form releasing MIGS Etc from any liability for death or injury. As for flight safety: "Although we doubt you will ever need it, you will be given detailed instructions on using the ejection seat."

Russia's regional councils demoted, Page 14

EC ministers veto early return to old ERM

Wider fluctuation bands to stay in place for foreseeable future

By Lionel Barber in Genval, Belgium

THERE WILL be no early return to the old European exchange rate mechanism, European Community finance ministers agreed after two days of talks this weekend.

The talks among EC ministers, central bank governors and top Treasury officials ended with a consensus that the wider fluctuation bands in the European exchange rate mechanism will remain in place for the foreseeable future.

EC in a rosy light ....Page 2
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The agreement that the old ERM will remain unworkable for a time was the main conclusion of a two-day assessment of the consequences of the August 2 European currency crisis.

That led to the de facto suspension of the ERM through the introduction of 15 per cent currency fluctuation bands.

Mr Jacques Delors, president of the Commission, warned ministers meeting in Genval, near Brussels, that the European economy faced low growth and high unemployment until 1996. Although Europe remained capable of a strong rebound, a recovery depended on a fall in EC interest rates, lower employment costs and a stronger dollar.

The sober outlook for the EC economies emerged along with signs that the European Commission has abandoned hopes that a "hard core" of currencies built around the D-Mark might be ready for economic and monetary union by 1997.

The ministers, central bank governors and senior Treasury officials rallied behind the goal of greater economic "convergence" on inflation, budget deficits and interest rates as the precondition for a single European currency.

But the UK, France and Germany resisted efforts by the Commission to set specific performance targets to measure the success of their efforts to bring their economies back into line.

The "Big Three" told Mr Henning Christophersen, EC economics commissioner, that they could only support general guidelines on convergence at the EC summit in Brussels in December.

Their resistance set back hopes in Brussels that the Commission might be able to use the impending ratification of the Maastricht treaty to draw member states into a more formal co-operation on macro-economic policy.

Ministers appeared anxious to avoid the recrimination which has bedevilled relations the past 12 months, and steered clear of earlier suggestions that capital controls should be considered to strengthen the ERM against currency speculators.

Mr Philippe Maystadt, Belgian

Continued on Page 14

Greek opposition leader Andreas Papandreou, whose Panhellenic Socialist Movement took an early lead in yesterday's national elections Reuter

Socialists take lead in Greek election

By Kerin Hope in Athens

GREECE'S opposition socialists led by Mr Andreas Papandreou appeared to be headed last night for a comfortable victory in the country's general election.

The result seemed a remarkable comeback for Mr Papandreou, 74, who lost power in 1989 dogged by controversy and poor health.

With 19.8 per cent of votes counted, his Panhellenic Socialist Movement (Pasok) had 46.0 per cent compared with 41.2 per cent for the conservative New Democracy party of prime minister Constantine Mitsotakis.

Political Spring, a conservative splinter group founded three months ago by Mr Antonis Samaras, a former foreign minister, was in third place with 4.7 per cent.

Independent analysts predicted that Pasok would finish with around 46.5 per cent of the vote. This would give the socialists a clear majority in the 300-member parliament under an electoral law that awards extra seats to the front-running party.

New Democracy appeared to have lost most support to Political Spring, which brought the government down last month by persuading two conservative deputies to defect.

New Democracy had been plagued for months by internal divisions, with senior cabinet ministers who were reluctant to abandon Greece's patronage system putting up fierce opposition to Mr Mitsotakis's plans to privatise public utilities and other state enterprises.

Mr Miltiades Evert, a senior New Democracy member, said last night the socialists were in a strong position. "It seems our policy of liberalising the economy wasn't understood, but even in opposition we intend to play a constructive role," he said.

Mr Akis Tsochatzopoulos, Pasok secretary-general, said: "A clear victory for Pasok is guaranteed. We're looking at a new political stability."

Mr Papandreou's comeback follows his acquittal last year of charges of corruption during the socialists' previous term in office.

His last days as prime minister in 1989 were dogged not only by ill-health but also by embarrassing controversy surrounding his marriage. He has since married a former Olympic Airways stewardess, Ms Dimitra Liani.

Voters appeared to have brushed aside concern that Mr Papandreou, who made few campaign appearances, may not be strong enough to run the country.

The socialists appeared to have gained support from the small Left Alliance party, which was struggling to reach the 3 per cent level needed to ensure it is represented in parliament. But the Communist party, backed by Stalinists and trade unionists appeared certain of winning over 4 per cent of the vote.

Italian banks agree on plan for restructuring of Ferruzzi

By Robert Graham in Rome

ITALIAN BANKS have agreed in principle to a freeze on interest payments to enable the administrators of the Ferruzzi-Montedison industrial group to carry out a radical restructuring plan.

If the agreement is now endorsed by the banks' boards and by the foreign banks involved, it will mean they will forgo interest payments of some L1,500bn ($944m) this year.

The foreign banks are due to discuss the restructuring plan today in Milan. Until now they have taken a tough stance, opposing a debt moratorium. Italian financial institutions account for over 75 per cent of outstanding bank debt; the remainder, totalling L6,500bn, is owed to some 100 foreign banks.

In return for an agreement, the administrators will restructure the group's outstanding L28,000bn worth of debts, sell off L5,500bn of non-core business and recapitalise both Ferruzzi Finanziaria (Ferfin) and its quoted industrial subsidiary, Montedison.

The reward for the banks is the prospect of eventually recovering their money through the recapitalisation and subsequent projected profitability of the operating companies, essentially in the Montedison portfolio.

Without an agreement, Italy's second-largest private group risks bankruptcy proceedings. The situation has to be clarified by Thursday, when Ferfin and Montedison are due to approve their half-year balance sheets.

A decision on the accounts was postponed on September 30 because no agreement had been reached on a debt moratorium. Excluding the debt service payments will dramatically change the profit and loss account.

It is still not clear whether the debt moratorium will be backdated to January. This is likely to be a big sticking point with the foreign banks, if they are willing to accept the principle of a moratorium at all.

The Bank of Italy discreetly intervened on Friday, using its good offices and powers of moral persuasion to demonstrate that the restructuring plan, drawn up by Mediobanca, had its full backing.

The Bank of Italy's public endorsement makes it more difficult for the foreign banks not to fall into line. However, the mood of the foreign banks is unlikely to have been softened by apparently well documented reports that both Mediobanca and Banca Commerciale Italiana, one of the main creditors, knew of the Ferruzzi group's financial plight almost three months before it became public knowledge.

Mediobanca's plan envisages a five-year timescale, during which net financial debt of Montedison will be cut from L14,400bn to L4,900bn and that of Ferfin from L5,000bn to L1,900bn.

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Growth, jobs and balanced budgets beckon

Delors paints EC's future in rosy hues

By Lionel Barber in Genval, Belgium

THE European Community faces two more years of low growth. But assuming interest rates and employment costs fall, it can look forward to balanced budgets, falling unemployment and 3 per cent annual growth in the second half of the decade, according to Mr Jacques Delors, Commission president.

In an after-dinner presentation to EC finance ministers on Friday night, he offered a seductive vision of Europe's prospects by the year 2000.

He was careful to point out that his economic model was not a forecast. It was more a tool for focusing minds on what had to be done for the EC to return to the path of economic virtue. As such it provided clues to his forthcoming "White Paper" on competitiveness.

Mr Delors insisted that "Europe is not a mature economy".

The EC needed to recapture the spirit of the 1960s, when the prospect of the single European market generated jobs and growth.

In order to keep pace with the US and Japan, ministers needed to focus on three areas:

● Competitiveness. Lower interest rates and a higher dollar would strengthen Europe's position, he said, but ministers also needed to tackle the costs of hiring labour.

If employment costs were judged to be too high, member states needed to decide whether to reduce spending in other areas such as health. Alternatively, they could finance high social costs through other measures such as the carbon energy tax.

● Labour markets. While avoiding specifics, Mr Delors suggested enough flexibility to draw guarded applause from Mr Kenneth Clarke, UK chancellor of the exchequer.

● Strengthening the relationship between growth and jobs. Mr Delors remains wedded to big capital spending projects, particularly in the area of telecommunications or US-style "information highways"; but he also believes that Europe could create more jobs by marginally lowering its rate of increase in productivity in service industries.

If EC member states can make progress in these areas, the prospects for growth and employment will improve dramatically, according to Mr Delors. Other factors would be a more favourable outlook for world trade, including an agreement in the Gatt Uruguay Round; an increase in investment from 19 per cent of EC gross domestic product to 24 per cent; and higher global savings rates.

On this basis, Mr Delors suggested that unemployment could fall from 11 per cent to 7 per cent, and that budget deficits in the EC could fall by 5 per cent in 1996 to zero by the year 2000.

This must look like a stairway to heaven for Europe's economies as they struggle to escape recession; and Mr Delors, who retains an almost religious faith in Europe's capacity to recover its economic and political strength, no doubt intended it as such. Yet the implicit message is that the EC is condemned to two more tough years. This makes it highly unlikely the Community will be ready to form an economic and monetary union by 1997.

Editorial comment, Page 13

Retreat on competition policy

By Robert Rice in New Orleans

THE EUROPEAN Commission is to retreat from its recent policy decision to involve the legal processes of individual member states more in the enforcement of competition policy within the Community.

A Commission notice issued at the end of last year outlined Brussels' intention to leave straightforward competition cases to be dealt with at a national level, allowing the Commission and the European Court to concentrate on more complex issues.

But Mr Karel Van Miert, competition commissioner, is believed to feel that increasing reliance on national competition authorities and courts to enforce EC policy is impractical at this stage.

In spite of recent moves among member states to adopt competition rules based more closely on Articles 85 and 86 of the Rome treaty, few national authorities and courts have any experience of the issues involved in EC competition cases.

The change of tack on the division of power between Brussels and the member states is expected to be signalled by Mr Van Miert at the International Bar Association business law conference in New Orleans today.

He is thought to have been persuaded of the need for a rethink in particular by a British decision in April not to adopt a regime for tackling abuse of a dominant position based on Article 86.

Until there is a greater degree of harmonisation among the competition rules of the member states and until national courts have gained experience in enforcing them, Brussels is thought to believe greater emphasis on subsidiarity in this area is inappropriate.

The commissioner is also expected to tell more than 2,500 lawyers attending the conference from around the world of the need for greater flexibility in enforcing competition policy in a recessionary climate.

Mr Van Miert will reaffirm the Commission's intention to be tough on cartels, collusive behaviour and abuse of a dominant position, but underline the need to ensure that EC companies are not prevented by strict enforcement of competition rules from competing in global markets.

Speaking in Washington last week, he called for the international trade rules in the General Agreement on Tariff and Trade to be extended to cover restrictive business practices. He is expected to tell his New Orleans audience how he sees Gatt's role in clearing away private barriers to trade.

Elsewhere at the conference delegates will address mounting concern about increased opportunities for fraud arising from the paperless society, such as computer hacking and phantom withdrawals from hole-in-the-wall automatic cash-dispensing machines.

The conference will also tackle a number of moral and human rights issues.

Residents of Locarno, Switzerland, cross the town square by boat after heavy rainfall caused floods in many of the country's southern regions.

Associated Press

German engineers in plea for Bonn aid

By Christopher Parkes in Frankfurt

GERMAN heavy engineering manufacturers need government funds to help them recover from the "deepest, most difficult and longest recession" since the war, according to Mr Jan Kleinewefers, president of the VDMA industry association.

Together with the federation of German industry, BDI, the association was considering a joint formal request for "investment premiums" to encourage domestic customers to invest in new plant and machinery, he said at the weekend.

Complaining of "deafness" among politicians, Mr Kleinewefers said he was asking not for subsidies but for a limited injection of aid and the deferral of certain tax payments to stimulate capital spending.

The cost of any investment relief measures would be cancelled out by an eventual increase in tax revenues, he claimed.

His appeal, coinciding with a rigid clamp on government spending, has little hope of success. However, it seemed to be intended as a further signal to trade unions currently preparing their 1994 pay claims.

Engineering employers recently cancelled current pay and conditions agreements in a largely symbolic move designed to underline the seriousness of the situation.

Mr Kleinewefers told Munich journalists he expected "real relief" from the coming pay talks.

Personnel costs accounted for a third of all costs, he said, and could not be excluded from measures needed to aid recovery.

Average net return on sales in the industry was less than 1 per cent this year, the lowest for 40 years.

Only 75 per cent of capacity was in use, the lowest proportion since 1967.

Employers in the west of the country had cut 200,000 jobs since 1991, while output had fallen 15 per cent. Domestic orders had fallen 17 per cent in the first eight months of this year and foreign demand was down 4 per cent.

"There are still no clear signs of recovery. The turning point in the recession is still to come."

Craxi to help in probe

By Robert Graham in Rome

MR Bettino Craxi, the former Italian Socialist leader, has suddenly changed tactics in defending himself against a string of corruption charges. He now appears willing to collaborate with the magistrates.

On his own initiative he arranged a meeting in Rome on Saturday with Mr Antonio Di Pietro, the Milan magistrate whom he has constantly castigated since the corruption scandals first broke in early 1992.

The meeting marks a turning point in the long investigations into political corruption and illicit party financing. Until now, no senior politician in any of the previous administrations has sought to co-operate with the inquiries. Instead, they have hidden behind the protection of parliamentary immunity until forced by public opinion to waive it.

Mr Craxi has never ceased to protest his innocence and in March fought hard to avoid losing his immunity.

He waived it, only to face the two more minor charges linked to illicit party financing, while his parliamentary colleagues refused to let him face the more serious charges of extortion and receiving illicitly obtained money.

Milan magistrates are appealing against the constitutionality of parliament's right to prevent him facing these charges, which related to the alleged raising of nearly L40bn ($25m). Meanwhile, Mr Craxi, Italy's prime minister from 1983 to 1987, has been advised that he is under investigation for numerous other corruption offences. However, the magistrates cannot question him unless he consents.

As one of the most powerful figures in Italy from 1980 until his enforced resignation from the Socialist party this February, the former premier may be in a position to tell a lot of secrets.

EC looks to deal on German steel

A BONN government plan to rescue loss-making eastern German steelmaker Eko Stahl was unacceptable but a European Community ministerial meeting next month might thrash out a compromise, the European Commission said yesterday, Reuter reports from Bonn.

"The Commission cannot accept the current plan to build new capacity with more than half the money coming from public finances," the Bonn mission of the EC's executive body said in a statement.

It added that the Community's industry commissioner, Mr Martin Bangemann, thought the aid for Eko, if approved by the meeting of industry and economics ministers on November 18, would jeopardise EC steel policy.

The Commission wants to broker a deal among EC steelmakers that would encourage them to slash their combined annual capacity by 30m tonnes in a sector dogged by slumping demand and cheap eastern European imports. It only permits government restructuring aid to steelmakers if the help is tied to plant closures or other capacity cuts. The Eko plan would involve DM1bn of aid to modernise cold rolling facilities at Eko's Eisenhüttenstadt plant near the Polish border and build a new but relatively small mill with annual capacity of 900,000 tonnes.

Greens affirm pacifism

By Quentin Peel in Bonn

GERMANY'S Green party, the sole established political party still increasing its support in the polls, voted at the weekend to disarm and eventually abolish the Bundeswehr, the German armed forces. A special conference in Bonn also rejected by a large majority any move to send German troops abroad as part of military peace-keeping or peace-making operations.

Thus the Greens, who may well be a candidate for membership of the next government if they continue to pick up votes from the main parties, remain solidly committed to their pacifist traditions. By going so far as to call for abolition of the Bundeswehr, the party is likely to scare off middle-of-the-road members of the Social Democrats (SPD) doubtful about the wisdom of a coalition with the Greens.

The SPD is currently negotiating a "red-green" coalition for the city parliament in Hamburg, where the party lost its overall majority last month. The Greens almost doubled their vote to more than 13 per cent. The city's SPD leadership is deeply divided on the issue, and voted by a bare 13-11 majority on Friday to pursue negotiations. Mayor Henning Voscherau argues that Green policies on economic development, housing, law and order and the environment may prevent the SPD pursuing effective policies on the key issues likely to decide next year's national elections.

Confirmation of the Greens' pacifism is likely to reinforce similar doubts in the national SPD leadership. However, a continuing strong performance by the party might make a red-green coalition for the next Bonn government a genuine option, with a clear left-wing bias.

Seeking better health for less money

Some countries spend twice as much on medicine as others, to no effect, reports **Paul Abrahams**

THANKS TO vast discrepancies in the amount spent on pharmaceuticals, some European governments are spending twice as much on medicines per capita than others without achieving improvements in their relative life expectancies.

Prescription medicine sales through pharmacies during the first six months of this year were only $46 a head in Britain. That compared with $108 in France and $78 in Germany, Italy and Belgium, according to figures compiled by IMS International, the market research group, and the Financial Times.

The discrepancies in per capita spending were not caused by differing prices for patented drugs. Prices for drugs in France are among the lowest in Europe, while those in the UK are among the highest. Nor are they caused by significant differences in the incidence of diseases or the age structure of the populations.

Rather, the main differences in spending between European countries are caused by variations in the volume and type of drugs prescribed.

These variations in prescribing are huge. French doctors prescribe five times as many items as British doctors and six times as many as their Danish counterparts, according to a recent study by the Association of the British Pharmaceutical Industry.

Similarly, the differences between EC nations' drug spending for therapeutic areas are striking. France spent $27 a head on cardiovascular drugs during the first six months this year, compared with $19 in Germany, $17 in Italy and $8 in the UK, even though the UK has one of the highest rates of heart disease in the world.

For asthma, France spent $13 per head, compared with $10 in Belgium, $9 in Italy, $8 in Spain, $5 in Germany and $3 in the UK.

Moreover, many of the drugs prescribed in high-volume markets such as France and Italy are of little proven efficacy. A recent Italian survey estimated 10 of the top 50 products sold in that country offered no therapeutic benefit. The study rated a similar number of France's top 50 as useless, compared with six in Germany and none in the UK. All but four of the top 50 products in the UK were internationally recognised as effective.

Many of these useless medicines are produced only on a national basis and offer at best symptomatic relief. Take the market for asthma, for example. France spends four times as much on respiratory drugs as the UK, according to IMS. But one leading asthma treatment group reckons the unproven palliative treatments and cough remedies commonly prescribed in France for asthma should be excluded from data. Once this is done, the UK market is actually larger than the French, worth £341m compared with £131m.

The UK's National Health Service drugs bill is kept down through government measures such as doctors' indicative budgets, prescribing lower doses of products such as antibiotics, and widespread use of cheap, off-patent generic medicines.

Zeneca, the UK pharmaceuticals group, estimates that 72 per cent of British prescriptions for its former top-selling product, the heart-drug Tenormin, are given to patients as cheap generic versions. That compares with 1.6 per cent in France and almost none in Italy.

Admittedly, comparisons between the UK and continental countries may not be entirely fair. The UK may well be underspending on medicines. The UK's drugs bill is also kept low by extremely poor take-up of expensive, innovative medicines which could be of benefit to patients. This is partly because of British doctors' conservative prescribing habits.

Glaxo, the world market-leader in anti-ulcer treatments, estimates recent treatments known as proton-pump inhibitors make up only 25 per cent of the UK anti-ulcer market, compared with 50 per cent of the French market.

Similarly, the low spending by the UK on cardiovascular medicines is partly because of the poor uptake of cholesterol-lowering drugs.

A recent survey by Merck of the US showed that only 17 per cent of UK patients visiting doctors had had a cholesterol test and of these only 1 per cent were given cholesterol-reducing drugs. That compared with 65 per cent of French patients, of whom 17 per cent were treated with medicines.

For all the discrepancies among prescribing in EC countries, there appears to be little correlation between drug consumption and life expectancy. This is broadly true for all medical expenditure, although there may be different class distributions concealed by the average figures.

Life expectancy at birth for males in France, the country with the highest per capita spending on medicines, is 73 years, compared with 73.5 years in Italy, 73.2 in the UK, the nation with the lowest spending, and 72.6 in Germany.

Meanwhile, Germany and Italy have introduced measures this year to limit spending on drugs through eliminating non-effective medicines.

THE USELESS DRUG LEAGUE
A=effective B=second-line C=useless*

	Top 25 products by value of sales			Top 50 products by value of sales		
	A	B	C	A	B	C
Italy	11	7	7	25	15	10
France	16	4	5	26	14	10
Germany	19	5	1	35	9	6
UK	24	1	0	46	4	0

*A: therapeutically effective on basis of international literature. B: second-line therapy, open to misuse, more expensive than similar products, or combinations with no advantage over monosubstances. C: no evidence of efficacy.

Source: Prof Silvio Garattini of the Mario Negri Institute, based on a survey conducted by the health economics centre Cesav.

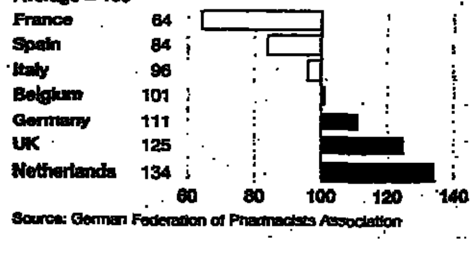
The cost of buying medicines: Europe's big spenders...

Pharmacy purchases per capita (January-June 1993) in dollars

	Total	Cardiovascular	Alimentary/ Metabolism	Anti-infectives	Central Nervous System	Respiratory	Musculo-Skeletal	Blood/Organs	Others
France	108.3	27	19	12	9	13	5	6	18
Italy	78.7	17	12	7	5	9	5	5	19
Germany	78.5	19	14	8	9	5	4	3	16
Belgium	78.4	15	12	12	8	10	5	3	13
Spain	60.9	11	9	6	6	8	3	3	16
Netherlands	53.5	10	12	7	8	4	2	2	10
UK	46.2	8	9	6	7	3	3	1	9

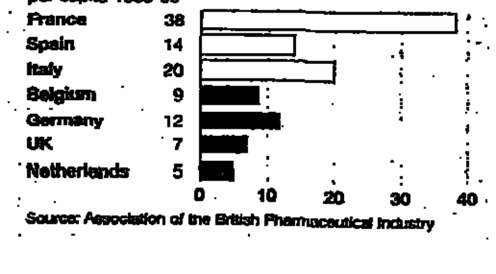
Source: IMS International/FT

...pay less...



Source: German Federation of Pharmacists Association

...and buy more



Source: Association of the British Pharmaceutical Industry

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Budget taxes would 'threaten' fragile recovery

By Peter Norman, Economics Editor

ECONOMIC recovery in Britain is fragile and the government should act with caution if raising taxes in its November 30 Budget, according to two reports published today.

In its quarterly business survey, Dun & Bradstreet, the business information company, found that confidence about sales prospects increased among UK managing directors for the fourth consecutive quarter.

But this was offset by the survey's finding of falls in profit and export expectations over the past six months.

In their latest UK economic forecast, the independent economists of the Ernst & Young Item Club expect economic growth to accelerate to 2.6 per cent in 1994 from 1.7 per cent this year but said "significant risks" surround the outlook.

The Item Club economists said further sharp tax increases of £10bn spread over several budgets would risk higher inflation and lower growth in the middle of the 1990s.

The Dun & Bradstreet poll of 1,745 managing directors between September 9 and 21 found that 37.2 per cent favoured lower spending on public services to correct the Budget deficit against 25.7 per cent advocating higher indirect taxation and 24.2 per cent in favour of higher direct taxes.

Mr Philip Mellor, Dun & Bradstreet's marketing manager, said the survey suggested that Britain's economic recovery may "be beginning to run out of steam" in spite of "the prospect of a last quarter spending spree" this year.

The Item Club economists, who use the Treasury economic model to make their forecasts, say growth is likely to settle back to 2.4 per cent by 1995 and 2.2 per cent by 1996. The recovery will, however, generate new jobs from next year and will push unemployment below 2.75m by mid-year.

THE patchiness of economic recovery was underlined in figures from the Confederation of British Industry, the employers' organisation, which showed that business activity in the financial services sector fell slightly in the third quarter of the year.

A 21 per cent drop in business conducted by banks with industrial and commercial companies was the main cause of the fall in overall activity, which occurred despite strong rises for venture capitalists, securities traders and others.

Despite the 3 per cent fall in activity, optimism about trading prospects strengthened for the fourth quarter in a row, with 41 per cent of the 294 companies responding to the survey saying they were more confident than before.

Mr Andrew Sentance, CBI director of economic affairs, said that recovery in the sector was still "uneven and patchy". A fall in volumes for banks and life insurers, which make up half the sector, accounted for the drop in business.

Britain in brief

Computer games used for adverts

Children's computer games are the latest advertising medium for snack food manufacturers wanting to promote their brand names to the young.

Sweets, biscuits and crisps, and their logos and characters are appearing as integral parts of computer games. Advertisers are paying between £13,000 and £50,000 for inclusion in the games.

The Consumers' Association is calling for the British Code of Advertising Practice to be extended to cover new media developments. The company fixing most of the deals in the UK between the manufacturers and software publishers is Microtime Media.

Mayhew urges talks suspension

Making progress in the talks about the future of Northern Ireland would be easier if the Hume-Adams initiative remained suspended, Sir Patrick Mayhew, the Northern Ireland secretary, said.

A dialogue between Mr John Hume, the leader of the mainly Roman Catholic Social Democratic and Labour party, and Mr Gerry Adams, the leader of Sinn Fein, the political wing of the IRA, was launched last month. The initiative has already led the hard-line Democratic Unionist party to rule out further participation in the roundtable talks process.

Charities face tax relief blow

Voluntary sector leaders are braced for the appearance tomorrow of a Home Office published report recommending abolition of charities and their automatic tax relief.

Charity, the report is expected to conclude, is a medieval concept that has become meaningless now that many voluntary organisations provide welfare services under contract to public authorities.

It will argue that charities must choose between becoming publicly funded service delivery agencies, or free-standing campaigning organisations.

Speed urged over N-dumping

The government's nuclear safety watchdog has urged ministers to clear obstacles in the way of creating the UK's first safe underground disposal site for nuclear waste.

Delays in creating the disposal site at Sellafield in Cumbria mean that nuclear waste is being stored in "unsatisfactory" and "deteriorating" conditions at power stations and other nuclear installations, according to the Advisory Committee on the Safety of Nuclear Installations.

Professor John Horlock, the committee's outgoing chairman, has asked Mr Tim Eggar, the energy minister, to throw his weight behind efforts to establish the nuclear waste store before 2010, according to a letter leaked to Greenpeace.

Thatcher hype fails to bring memoirs alive

Philip Stephens on Thatcher, Thatcherism, and the Tories

SO MR MAJOR could breathe a small sigh of relief. After all the advance hype the publication yesterday of official extracts from Lady Thatcher's memoirs proved a predictable anticlimax.

True she is not exactly full of praise for her successor. She makes little secret of her reservations about his intellect and ideological backbone.

There is probably more to come when the Sunday Times newspaper publishes its second set of extracts next week. Lady Thatcher believes, for example, that Mr Major deserted her during the first round of the 1990 leadership campaign.

But to anyone who has heard Lady Thatcher speak in private of Mr Major, these are distinctly modest criticisms. Around the lunch or dinner table she has accused him of being weak and indecisive, of abandoning the commitment to sound public finance, of spending taxpayers' money like a socialist.

The real venom is reserved for Lords Howe and Lawson. These were the principal architects of the Thatcher revolution. But it was her disagreement with them over the European exchange rate mechanism and, in the case of Lord Howe, Europe more generally, that precipitated the final implosion of her cabinet.

Thus Lord Lawson is at once praised for his intellect and then accused of "folly" in allowing his determination to get sterling into the ERM to override her determination to hold down inflation. Somewhat implausibly for those who followed the argument at the time he is accused of wanting constantly to cut interest rates while she was forever asking for the burden on homeowners to be increased. The FT is credited for tipping her off in November 1987 about his policy of shadowing the D-mark. No matter than everyone of importance in Whitehall knew of the policy months earlier.

For Lady Thatcher her then chancellor's approach is proof that: "The belief that the laws of economics and the judgments of the markets can be suspended by clever people is a perpetual temptation to folly." The truth, of course, is rather more complicated than that.

Providing a deliciously ironic, and presumably unconscious, assessment of the forces behind her downfall Lady Thatcher concludes a bitter attack on Lord Howe with the thought that "Above all, I suspect, he thought he had become indispensable, a dangerous illusion for a politician".

The single mistake, according to Lady Thatcher, was her failure to sack her then chancellor and foreign secretary. Britain would have stuck with a floating pound and would have taken the path towards economic prosperity as its 11 European Community partners foolishly isolated themselves within monetary union.

Even the poll tax, she seems to believe, might have been made to work. She would have won the election and, just about now, would be contemplating a graceful move into retirement. In the words of one cabinet minister yesterday, "such are the delusions of once-great political leaders"

Sadly, Mr Major cannot brush aside so casually the legacy of his predecessor. Her influence is waning. Even in great leaders self-justification is too easily self-defeating.

The ideological warfare in Blackpool last week was a potent reminder that the instincts of Thatcherism live on in a significant section of the Tory party. A stronger leader than Mr Major with a less truculent set of MPs and a larger majority at Westminster could have made a more decisive break with the past.

The synthetic loyalty of some members of the cabinet would have cost them their jobs in a government headed by, say, Mr Kenneth Clarke. But Mr Major needs time to rebuild his authority after the ravages of Maastricht and of the economic recession. So he is ready to readopt some of the rhetoric of Thatcherism.

But Lady Thatcher's assumption that the prime minister's emphasis on traditional Tory values will signal a return to what he has described as a "golden age that never was" is mistaken. In Mr Major's mind the golden age was represented by the 1950s not the 1980s. Mr Douglas Hurd, the foreign secretary, is not intending to conduct Britain's European policy on the basis of the cheap insults of some who sit around the cabinet table.

Thatcherism is not dead. It has an able, if youthful, standard-bearer in Michael Portillo, who combines Lady Thatcher's gut instincts with some of the intellect of Lords Howe and Lawson. But it will take a general election defeat rather than an image of the recent past through rose-tinted spectacles to reconvert the Tory party to the ideology it rejected in 1990.

IN THE LIMELIGHT: Tony Blair, Labour's 'shadow' home secretary, is tipped for Downing Street by the turn of the century

Blair seen as prime minister in 2000

By John Willman, Public Policy Editor

MR Tony Blair, the opposition Labour party's modernising home affairs spokesman, receives encouraging support today from an unexpected quarter – a panel of top industrialists, bankers, business executives and other opinion-formers.

The panel, half of whom come from the business world, tip Mr Blair as the man most likely to be prime minister in the year 2000, ahead of Mr John Major, leading Conservative leadership contenders and Mr John Smith, the Labour leader.

More surprising, Mr Blair is also the panel's preferred choice for No 10 Downing Street. He attracts three times the support of the prime minister, and more than twice the support of Mr Ken Clarke, the chancellor of the exchequer.

The endorsement for Labour's foremost moderniser emerged from a poll by Opinion Leader Research asking Britain's most influential opinion-formers for their views on the UK in the year 2000.

In general, the panel members are pessimistic about the future, expecting the UK's decline in world influence to continue. China will gain the most in influence, according to the panel, followed by Japan, the US and Germany. Russia and India are also expected to become more influential by the year 2000.

The opinion-formers say that their main area of concern for the UK is both general economic performance and loss of international competitiveness.

Support for EC jobs code

By Robert Taylor, Labour Correspondent

THE VAST majority of British employers do not believe current European Community proposals on employee participation and involvement will make any impact on job opportunities in their companies.

The findings, in a survey published today by Industrial Relations Services, come on the day before EC social ministers discuss the draft works council directive.

Such findings are likely to embarrass the British government which opposes the works council directive on the grounds that it will add to the burdens of business.

Half of the employers even said they did not believe employee participation would add to their labour costs nor reduce their right to manage. A third added that the EC's plans would actually "improve" employee relations.

A total of 62 companies were involved in the survey including Manders chemical company, Hoover, Lucas Aerospace, Pirelli Cables, Premier Brands UK, Warburtons, the Lex Retail group and Gateway Foodmarkets.

The survey also found employee involvement initiatives are increasing in companies but the lack of senior management commitment is proving an obstacle to their success. In contrast nearly two thirds of company respondents who recognise trade unions said they had been no hindrance to such schemes.

Pay 'not a good guide' to earnings

By Richard Lapper

FIGURES on directors' pay given in annual reports substantially understate their remuneration, according to a survey of pay and benefits.

On average the director of a British company earns a basic wage of £92,000 but receives additional benefits in bonuses, pension contributions, company cars, insurance and other fringe benefits worth £62,428.

The survey was carried out by Bacon & Woodrow, the actuaries, and Remuneration Economics, a salary and benefits specialist. The survey covers the pay of 1,434 directors in 222 companies.

Directors' TRP Survey 1993 by Bacon & Woodrow (St Olaf House, London Bridge City, London SE1 2PE) and Remuneration Economics (Survey House, 51 Portland Road, Kingston upon Thames, Surrey KT1 2SH). Price £500 plus VAT.

PEOPLE

NatWest chalks up academic forecaster

Proof that the world of City economists is peopled not just by bright young things in their 20s comes with the move to financial markets of Geoffrey Dicks, right, a 46-year-old academic doyen of forecasting.

Dicks, who has worked at London Business School for the past 17 years, takes over today as UK economist at NatWest Markets, the securities arm of National Westminster Bank.

"I thought my chances of entering the City had gone long ago," says Dicks, who is currently the LBS's head of forecasting.

He has previously worked as an economist at the Department of Employment, and as a school teacher.

Dicks's chance to embark on a new career – with a "significantly higher" salary – came a few weeks ago when NatWest's head of strategy, Bob Semple, called him out of the blue.

Semple asked the business school guru whether he would be interested in taking over from Paul Neild, another golden oldie on the wrong side of 40, who had left NatWest unexpectedly for personal reasons.

The new NatWest incumbent scorns suggestions he may be too old to adapt to the cut and thrust of the City. "I am solidly unacademic," he says. "Also I'm an early morning person so I won't have any trouble with the early starts."

However, Dicks will probably have to reshape his lifestyle somewhat.

At the LBS he has had the luxury of working at his home near Exeter every Friday, a practice he sadly reckons he will have to give up.

At NatWest Dicks will join two other greybeards of the economics world; Robert Thomas is in charge of analysing bonds and currencies, and David Kern is chief economist of the UK banking side.

Gartmore gets non-executive weight aboard

Gartmore, the investment fund manager wholly owned by Banque Indosuez, today announces the appointment of four non-executive directors.

Banque Indosuez intends to float some 30 per cent of Gartmore, which currently manages £16bn in funds, ranking it fourth in the highly competitive investment management field. The flotation is planned for November.

The four are: **Victor Benjamin**, deputy chairman of Tesco; **Simon Duffy**, group finance director at Thorn EMI; **Nigel Rudd**, executive chairman of Williams Holdings; and **James Watson**, chairman of NFC, the transport, travel and property group. Rudd will be the senior non-executive. They join the eight executive directors of Gartmore.

Benjamin, 58, has been deputy chairman of Tesco since 1983. A solicitor, he has been a partner in the law firm Berwin Leighton for more than 30 years, and deputy chairman of Lex Service since 1973.

Duffy, 43, joined Thorn EMI from Guinness, where he was operations director of United Distillers, in 1992.

Rudd, 46, has been executive chairman of Williams Holdings since 1982. He is also chairman of Pendragon and deputy chairman of Raine.

Watson, 58, joined NFC in 1968 and has been chairman since 1991. He is also chairman of the Institute of Management.

The board has also established two non-executive committees. The audit and compliance committee will be chaired by Duffy; the remuneration committee by Benjamin.

Other non-executive appointments:

■ **Jack Gerber**, group deputy chairman of Macsteel International, as chairman of OLIVER ASHWORTH (HOLDINGS); the previous chairman and founder remains non-executive deputy chairman.

■ **Colin Fitch**, soon to retire as corporate finance director of Kleinwort Benson Securities, at MERRYDOWN.

■ **Michael Moore**, chairman of Tomkins, at CLERICAL MEDICAL and GENERAL LIFE ASSURANCE SOCIETY.

Keswick rises with Sun Alliance

Henry Keswick, 55, chairman of Jardine Matheson Holdings, has been appointed deputy chairman of SUN ALLIANCE, where he has been a director since 1975.

Owner of The Spectator weekly magazine between 1975-81, Keswick has also been a director of The Telegraph newspaper since 1990. He is a trustee of the National Portrait Gallery and has been chairman of the Hong Kong Association since 1988.

Sun Alliance has recently made another managerial change: **Mike Hall** has taken the new appointment of actuary, general insurance.

■ **Sir John Lucas-Tooth**, a former chairman of Japan Ventures and a director of Rupert Loewenstein Investments, has been appointed chairman, and **Leslie Lucas**, a director and general manager of NW Reinsurance Corporation, a member of the board of SEPIA, Structural Engineers Professional Indemnity Association.

■ **Greegor Logan**, formerly assistant general manager (investments) has been appointed investment director of MGM ASSURANCE.

■ **John Champness**, chairman of Lowndes Lambert Marine, is appointed to the parent board, LOWNDES LAMBNERT GROUP HOLDINGS.

■ **Jonathan Tilney**, formerly head of sales, has been appointed sales director of NCM CREDIT INSURANCE.

New presidents for electrical groups

Two UK electrical associations, EIEMA and GAMBICA, have announced the appointment of new presidents, each of whom will serve for a year.

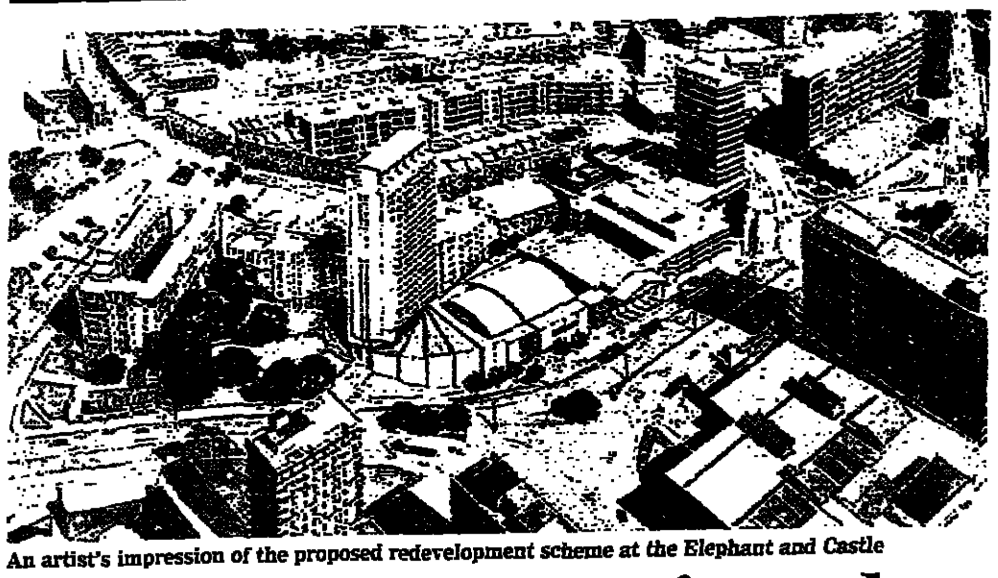
EIEMA, the Electrical Installation Equipment Manufacturers' Association, has named Stephen Lawson, chairman and managing director of Lawson Fuses, as its new president. Lawson worked for the North Eastern Electricity Board before joining Lawson Fuses in 1972.

At Gambica, the Association for the Instrumentation, Control and Automation Industry in the UK, the new president is Graham Woodhead, a director of Meggitt.

Woodhead worked for the British Thermostat Group, BTR and Minibea before joining Bestobell in 1972.

When Bestobell was acquired by Meggitt in 1984, Woodhead was appointed managing director of the controls division.

CONSTRUCTION



An artist's impression of the proposed redevelopment scheme at the Elephant and Castle

London regeneration plan

Southwark Council and the London Institute have chosen proposals put forward by AMEC for a regeneration scheme to be carried out at the Elephant and Castle in south London.

The £57m scheme involves redevelopment of an area currently occupied by the Elephant and Castle leisure centre and its adjacent car park – the largest council landholding in the area.

AMEC's proposals include provision of a leisure centre for use by the community; together with a new teaching block and student residential accommodation for the adjacent London Institute. St Mary's Churchyard, a nearby open space, will also be improved in terms of layout and appearance as part of the overall development.

AMEC has proposed a four-storey leisure centre, constructed as an important landmark for the area.

Facilities will include competition, training and leisure pools, a health spa, squash courts and a 38.5m x 32m multi-purpose sports hall.

A dance studio, community rooms and a spectator area will be also be provided, as will a library/exhibition area and a weight training room.

New French headquarters for Nestlé

BOVIS SA, a wholly owned subsidiary of the P&O company Bovis International, has won an £85m management contract to build the new 650,000 sq ft headquarters for Nestlé France at Noisiel, Seine-et-Marne, 18km east of Paris.

The 30-month project, which starts on site in February 1994, involves the refurbishment of a group of listed 19th-century industrial buildings that line the banks of the River Marne and the construction of a 200,000 sq ft building.

The 34-acre development, which includes an 8-acre island, will welcome 1,850 Nestlé staff from several subsidiaries in January 1996.

Nestlé has made the restoration of the listed buildings one of its main priorities. One of these, a mill built in 1871, will be fully restored to show the original hydroelectric machinery in the basement.

An area of the bank alongside the mill will be transformed into a square that will feature the foundations of the old factory's main chimney. The upper floor of the mill will be fitted out to provide offices for the Nestlé board.

One of the first reinforced concrete structures built on the island will also be fully restored. Built in 1906, the "Cathedral" was designed by Stephen Sauvestre, a partner of G. Eiffel, famous for tower construction. It is linked directly to the other buildings on the site by an arched concrete bridge that has a span of 148ft. The length of the span was believed to be a record at the beginning of this century.

Internal fittings will be the same in the refurbished and new buildings offering Nestlé's staff space, a high level of comfort and the latest communications technology. Bovis SA will also manage the fit-out.

£25m marine treatment works scheme

BIWATER TREATMENT, a division of Biwater Europe, has been awarded a £25m contract for the design and construction of the new Eastbourne Marine Treatment Works by Southern Water.

The scheme is a big part of Southern Water's "Operation Seaclean", and will provide primary treatment facilities for up to 216,000 cu m per day of incoming sewage from Eastbourne and surrounding areas.

The works, scheduled for completion in December 1995, will incorporate fine screening, grit removal and chemically assisted primary settlement using lamella plate separators. The primary effluent will then be pumped to sea via a 3.2km outfall.

The plant will be completely underground involving highly complex civil construction due to its location on the seashore.

Upgrading printing facility

A consortium of SULZER INFRA (UK) and two TRAFALGAR HOUSE CONSTRUCTION companies, Trollope & Colls and Rashleigh Phipps, has been awarded a contract worth about £25m to refurbish the Bank of England's printing works at Loughton, Essex.

The three companies will carry out an extensive modernisation of the buildings, services and finishes at the 1950s complex. The two-year project will also include some reorganisation of the buildings to reflect modern production technology.

Scottish projects

GARDINER & THEOBALD has commenced work on two contracts in Scotland with a combined value of £55.5m.

Gardiner & Theobald is providing quantity surveying services for Victoria Quay at the new offices of the government's Scottish Office at the Victoria Quay development in Leith, Scotland.

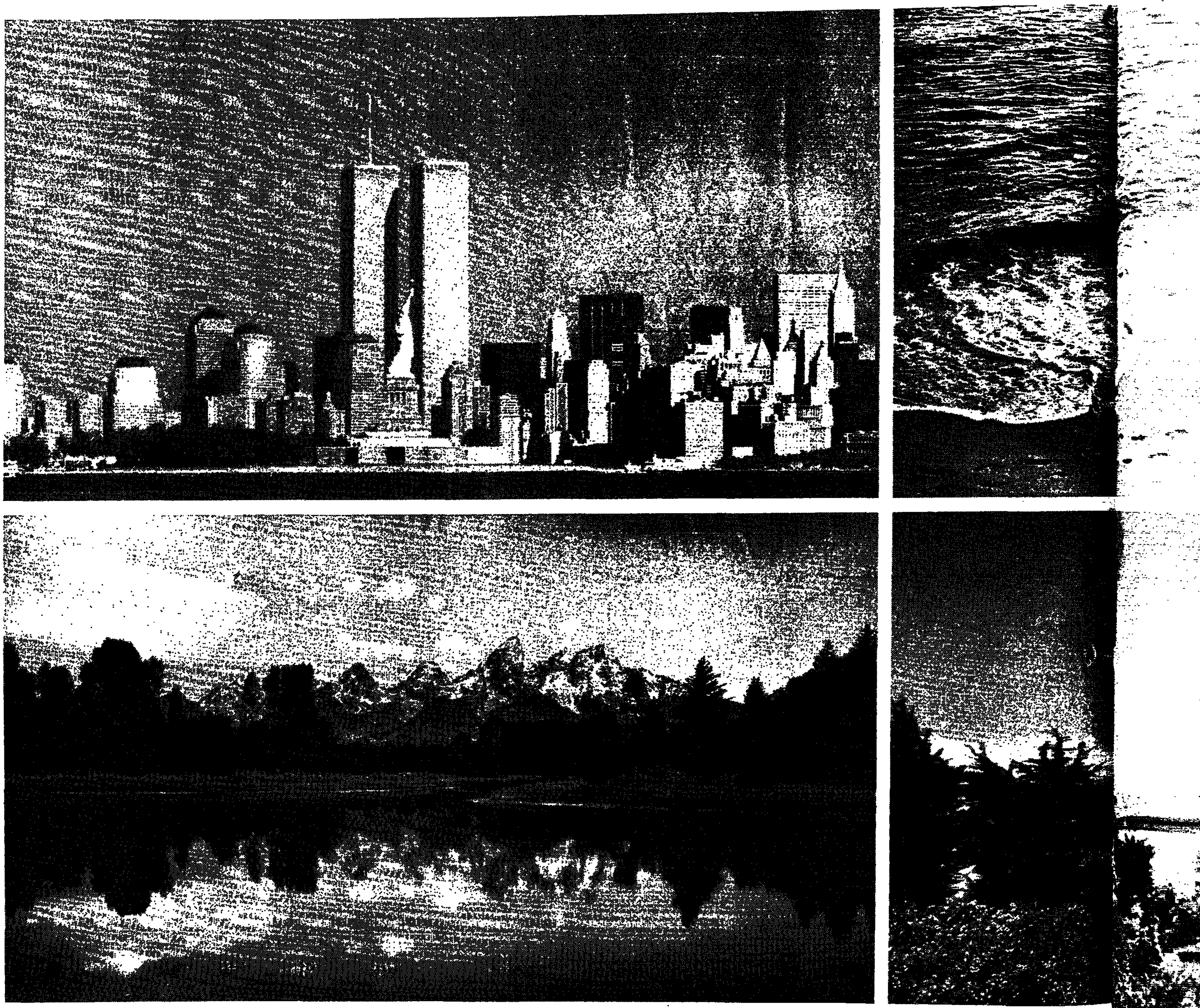
The £47m project provides 32,550 sq m (350,000 sq ft) of offices in a four-storey, low-energy building. The accommodation will be in three blocks, each with its own atrium, linked by a series of open courtyards.

Gardiner & Theobald is also acting as quantity surveyor for the Keeper of the Records of Scotland at Thomas Thomson House, the Scottish Records Office's new archive storage facility at Sighthill in Edinburgh.

Sheltered housing

LOVELL PARTNERSHIPS has signed contracts for a £14m social housing contract to provide 360 homes and accompanying infrastructure on a 25-acre site at Wyther Park in Leeds.

One Ticket. One Air



MANAGEMENT

TIPS FROM THE TOP

Make it interesting between the covers

Eric Nicoli, chief executive of United Biscuits, offers advice on how to prepare an annual report

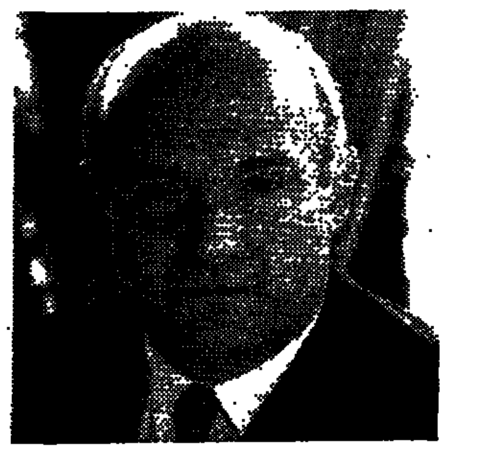
Few people can resist those magazine quizzes that claim to reveal your inner personality. So try this one on your corporate personality: pick up your annual report and approach it as a stranger might. Is it: (A) meeting all fiscal requirements, retrospective, financially opaque, short on expensive visual interest, long on verbal camouflage? or (B) only the first two of the above, but more besides – financially transparent, visually interesting, well written and giving a clear, concise account of business issues past and present?

If you're instinctively happier with option A, and evidence from many UK companies suggests you are not alone, then move to my final paragraph. If you think there might be something in option B, read on.

At UB, we aspire to option B and the research we commission each year shows we are making progress, as our annual report becomes a recognised plank of our investor-relations programme. It is the one uniting document that we have for our company as a whole, and as we have to live with it all year, we prefer to make it count.

Of course the audiences of our annual report are diverse, but we have prioritised them and we try to define appropriate messages. We can't be all things to all people, but we can structure the report so that the browser gets as much from it as the cover-to-cover merchant. As well as all the usual messages, we use our report to lay out our strategy to all stakeholders and show the progress we're making.

The easy bit is getting the report produced. Occasionally we hear nightmare stories of reprints and erratum slips. There is an easy way to avoid all this: sort out the internal mechanisms of tasks and responsibilities, only involving yourself in the process at useful and vital stages – and make sure you employ good people internally and an experienced design consultancy.



Don't let your finance people make any design decisions other than what colour the back pages should be

Your designers need to understand financial audiences, but most importantly you must help them understand your corporate culture and taste. We sit down from time to time with our designers and other people's annual reports. We sort them into those we like and those we don't. Alarmingly, given the money that everyone spends on this exercise, the second pile is usually bigger.

It's important to give your team time to get a good job done. However, you need to retain flexibility up to final copy deadline to make sure the messages are up to date. This year we turned our designers' hair grey with our negotiations to sell a large division, the Terry's Group, as we approached the print date. They covered the photographic content of the book every which way, finalising the cover only days before going to press.

This was probably a good thing, because the cover can be the topic of interminable debate. It has to reflect the content of the book, be different enough from the previous year, but also needs to reflect unchanging corporate values and differentiate itself from your competitors.

The only subject more fraught than covers is how to shoot your board, photographically speaking. Make sure your designers employ a patient, experienced photographer who can work fast and with suitable regard for vanity. Don't be afraid of cheating – they don't all have to be there together and they won't all be beautiful. If necessary, resort to retouching: I'm thinking of having hair in next year's report. One final tip – don't let your finance people make any design decisions other than what colour the back pages should be.

Options A and B will cost you almost equal amounts of money. The design, production and printing of your annual report will cost you approximately 20 per cent of the audit fee to produce the financial accounts required in the back. The print bill will be at least 15 per cent; so the 5 per cent you spend on design, writing, photographic content, together with adequate amounts of management time can turn a fiscal necessity into a useful corporate tool.

Next Monday: Clive Thompson of Rentokil on how to commission a new corporate identity.

Down with super egos

Lucy Kellaway on tackling megalomania in the office

How satisfying to be John Casablancas, head of Elite Model Management in New York. Last month he told his most famous model, Naomi Campbell, that he had had enough. He was fed up with her tantrums, fed up with her "greedy and demanding" ways and fed up with being "demeaned, used and abused". Never mind the large fees she brought in – she was out.

This story made world news not just because every trip of Campbell's on the catwalk is an event. The toppling of a giant ego is a rare spectacle, and one much enjoyed at a distance by everyone who has to deal with egos themselves.

Tantrum throwing, foot stamping, sulking, uncontrollable super egos are not only to be found in 23-year-old models. Among writers, musicians, sportsman, actors and chefs, famous egos abound. John Osborne, Dustin Hoffman, Marco Pierre White, John McEnroe, the list goes on.

Neither are big egos limited to "creative" people. Robert Maxwell may have been the biggest, but is by no means the only example of an ego in commerce.

"You need narcissism to become a business leader. But when you get to the top, funny things start happening," says Manfred Kets de Vries, a practising psychoanalyst and professor at the Insead business school in Fontainebleau, near Paris. "People idolise authority figures, so senior executives tend to get surrounded by liars."

It is not difficult to spot when an ego has got too big. Super egos do not listen, they have to be in the limelight, their judgment gets wonky, they refuse to take blame, they have to be in control, they want the biggest aeroplane and they surround themselves by yes-men.

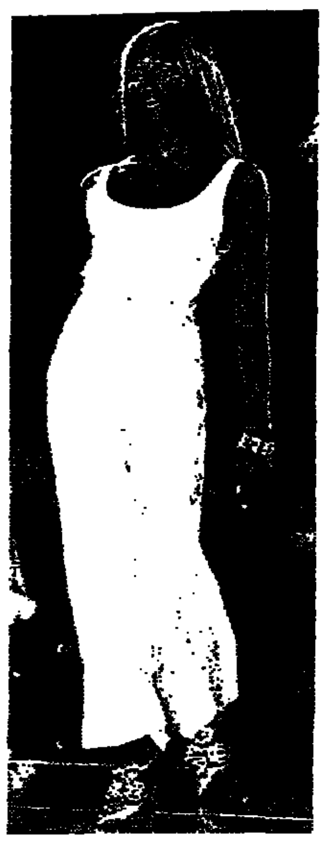
Nearly every company has one, but how do you deal with them?

With most super egos, the Casablancas option is not open. Very occasionally directors get together and decide that the boss's rampant ego is a luxury the company can no longer afford. But for most of the time, the problem is one of containment and co-existence.

When a two-year-old child throws a tantrum, there are two possible course of action. Either you take them on your knee and cuddle them, or you throw them in their cot and shut the door. With adult egos, the choice is a similar one. You can pacify them or you can confront them.

The first route involves kowtowing, but may in some cases be the best option. "You realise that they are on an ego trip, and you bow, scrape and tug your forelock. You play the game in the interests of a quiet life," says Peter Honey, a psychologist and management consultant.

This may work for egos you only have to deal with occasionally. One literary agent who works for some famously bad-tempered writers has become adept at avoiding conflict. "I accept that my writers are entitled to be as difficult as they like. I look for the warning symptoms. If I am dealing with someone who I know gets upset about their royalties, I try to anticipate that. There are other people that get apoplectic if I don't ring back in five minutes, so I try to be prompt."



Naomi Campbell: a model example

The other approach is to take them on. This requires more courage and needs to be handled with care. "You have to choose when and on what issues. Work out where your bottom line is, and on everything else grin and bear it," says Honey.

Tim Halford spent 10 years with Armand Hammer, one of the biggest egos of them all. During that time he was fired four times and had back four times. His job routinely included such things as getting Hammer seats at the royal wedding of Prince Charles and Lady Diana Spencer in full view of the US television cameras. Yet Halford found his own way of standing up for himself.

"If you've got someone with an ego, you must never dent it publicly. With Hammer, if you were 100 per cent sure of your ground, it was possible to tackle him quietly. He would accept that he was wrong."

Some experts argue that there is little colleagues can do to soften the behaviour of office egos. The most difficult cases, says Kets de Vries, are businessmen who also own the company. "The only possibility is for that person to have a coronary – then you have a lever and can do something with them".

In public companies, there may be other more sympathetic figures of authority to turn to, but Kets de Vries warns that this could be dangerous. "The moment you blow the whistle, your head comes off." He reckons that if your boss has too high an opinion of himself, your best route might be to find another job.

He argues that these super egos are in need of professional help. He compares the role as psychoanalyst with that of alcoholics anonymous: "I try to wean them away from their Genghis Khan characteristics." Simply telling the truth may get nowhere. "Very often these people are like Teflon. The truth just slips off."

While colleagues may be unable to prick inflated egos, companies can help prevent them from puffing up in the first place.

Gerard Egan, professor at Loyola University, Chicago, has traced the careers of many business egos who have started out as entrepreneurial talents but have eventually brought about the downfall of their companies. He cites R.H. Macy, the US retailer, and Sunbeam-Oster, the household appliance manufacturer, as examples of companies where the boss's ego has contributed to a business's rise and fall.

Despite the financial damage tyrannical managers can do, few companies seem aware of the problem, argues Egan. Managers and supervisors who instinctively know when to confront, when to encourage, when to leave alone, are needed, yet companies put little effort into making sure their managers have and use these qualities.

All managers need someone who will be their confidant, who will quietly tell them when they have overstepped the mark. People who constantly lose their temper need a colleague to take them aside and tell them what they look like when they get really angry.

Companies can also retard the growth of egos by appraisal systems in which peers and underlings as well as their superiors give their views. This all-round view may discourage damaging behaviour before it becomes too deeply entrenched.

Not all big bosses let success go to their heads. Kets de Vries singles out Richard Branson for praise. Egan mentions Bill Gates. Those who have been bawled out for criticising Branson or have seen Gates' plans for a multi-million dollar underground bunker might not agree.

Yet the point is not that these two are modest. It is, as de Vries says, that they have "put their narcissism to good creative use".

ARTS

Forceful Wagnerian: John Tomlinson as the shoemaker Sachs in Covent Garden's new Meistersinger — Alastair Muir

Opera/**Max Loppert**

High spirits in Nuremberg

The first new production of the Royal Opera's 1993-94 season is the company's first new *Meistersinger* for 24 years. Its plentiful high spirits are distilled from a combination of bright primary colours, strong involvement in leading roles, innumerable pinpoint comic cameos, and a multitude of cheeky ingenuities of design and festive amusements in the final scene.

Of all the myriad ways of tackling Wagner's overflowing, inexhaustible masterpiece, this one is undoubtedly timely and aptly calculated. After decades of looking to Germany for its Wagner modes and manners, Britain's "international" opera company now chooses for itself a youthful British production team (Graham Vick, producer, Richard Hudson, designer). The conductor is Bernard Haitink, a Dutchman long cherished as one of the glories of British musical life. Apart from the Swedish Walther, the cast is entirely anglophone, and full of expectation-arousing newcomers to their roles.

By all these collaborators the overall "accent" of the performance has been devised with conviction and decisive purpose. The design style is a brilliant theatrical recreation of Breugel, in all his earthy red-bloodedness, and Bosch, in all *his* fantastic inventiveness. Hudson's scene-settings (expertly lit by Wolfgang Göbbel) are no simple tableaux-vivants but a marriage of 16th-century and late 20th-century artistic vision.

The tricks enacted with scale and perspective – sometimes broadly jokey, as in the start to Act 2, sometimes wildly surreal, as in the riot, with figures dangled madly from apertures in the roof – are at once post-modern and authentically "period". Costume colours in the finale likewise: cod-pieces flying, this is a Breugel public jollification filtered through the production team's 1990s theatrical intelligence.

In many ways Covent Garden showed us one of the most broadly enjoyable of *Meistersinger* stagings. No doubt it is pure critical curmudgeonliness to have spent Friday evening as I did, simultaneously celebrating and regretting the production stance. At certain points this regret was easily explained: after so much naughty knockabout the gloriously hushed close to Act 2 goes almost unrecorded – except by the intrusive squeaks of the mobile set-partitions as they return to home base.

Generally, though, it took the form of a growing awareness that the breadth, depth and, above all, quiet centre of the music were awakening precious few echoes in the events on stage. So much personalised detail among the Mastersingers! So many pratfalls for David and his workmates! So little evening shade and reflective calm in the Act 2 streets of Nuremberg – and only one parched-looking linden tree!

Repeatedly I found myself longing for a *Meistersinger* less determinedly upbeat. Darker shadows are there for the searching-out; and while the notion of *Meistersinger*-as-Nazi-triumph – as recently explored in a controversial Frankfurt production – might be inappropriately downbeat for a Covent Garden audience, the opera affords a more complex experience than here suggested.

Two additional possible causes for these mixed feelings suggest themselves. The first is that Haitink, at his best a Wagnerian of incomparably muscular, direct grip, seemed for the first two acts to be exercising that grip excessively hard. The sound was often oddly abrasive, unblended, with "interesting" stray ends of brass and choral timbre allowed to protrude, and solo voices sometimes covered. The beautifully thought moulding of the Act 3 gave a taste of the settled-in Haitink *Meistersinger* soon (no doubt) to be achieved.

The second concerns the new Sachs, John Tomlinson, a serious, forceful, deeply committed artist already much prized as a Wagnerian on the Continent and here receiving his belated "big chance" at Covent Garden. The voice is a mighty instrument – and goodness, how mightily he uses it! On this evidence his bass lacks nothing in Sachs stamina and range but (to my mind) almost everything in Sachs *Innigkeit*, meditative melancholy, gentleness of statement, and all the other Sachs qualities dependent on legato line steadily sustained. Leaping about like a neurotic leprechaun, Mr Tomlinson certainly captures the shoemaker's restless energy; in voice and person this Sachs is all of a piece.

The rest of the cast promote more traditionally Wagnerian vocal values, though peak form eluded most of them on Friday. Gösta Winbergh's Walther, handsomely solid and well-balanced of tenor timbre from beginning to end, needs to produce more personality, more conversational vitality; Deon van der Walt's David, so full of bounce, needs to find more charm and sweetness in his Act 1 recitation; Nancy Gustafson, an Eva of picture-book good looks and apt vocal warmth, needs to make far more of her words. Two Covent Garden "old hands" at this opera – Gwynne Howell (Pogner), Anne Howells (Magdalene) – gave great pleasure.

And so does Thomas Allen's first Beckmesser, easily the greatest of the evening. It is perhaps a problem – but more for others on stage than the audience – that much of the finest singing should be delivered by this particular character; but there is more to the performance than excellently clean, stylish, colourful vocalisation. In a brilliant feat of character observation, with dead-fish hands a-flutter, spectacles a-fidget, glances madly snatched, with point and purpose in its tiniest eyelid-flicker, Beckmesser's warped intelligence and swiftness of perception are newly imagined. And, as a result, the whole opera is newly enlivened and enriched.

Royal Opera, Covent Garden: in repertory until November 13; sponsored by Cable & Wireless and Friends of Covent Garden

Architecture/**Colin Amery**

The power of prudence

It stands like a blushing giant dwarfing its insipid neighbours. Alfred Waterhouse's (1830-1905) Gothic palace for the Prudential Assurance company has confidently gazed out on London's High Holborn since its arrival in 1879. This week the Queen is to take tea there to mark the completion of a total refurbishment and rebuilding programme which the Prudential Corporation initiated in 1989.

I have always thought that "the Pru" was a wonderful building that guarded a great secret. I recall vividly the excitement of glancing through the great Gothic entrance gates as a child and seeing the dark silhouette of the winged bronze angels on the war memorial. Two buxom lady angels dip their uncovered breasts towards the limp and almost skeletal body of a dead British soldier. Was he insured with "the Pru", does he feel the sense of confidence that emanates from these sturdy red walls? Part of the power of the building comes from the power of "the Pru". Insurance companies became very rich and powerful in the 19th century and their headquarters in the City of London and their branches around the country were designed to exude stability and, indeed, prudence.

It was natural for a company such as the Prudential to commission the leading Victorian commercial architect, in the shape of Alfred Waterhouse. He was rightly renowned for his clear planning and for his enthusiasm for a free, picturesque Gothic style. His greatest works that survive are London's Natural History Museum and the Town Hall in Manchester. His most successful design was sadly never built. It was a competition design for the Law Courts in the Strand which Waterhouse prepared in 1866. The competition was won by George Edmund Street but Waterhouse's scheme was far more romantic, with tall Gothic towers that would have rivalled the Palace of Westminster and turned Thameside London into a second Camelot.

Waterhouse must have been a strange mixture. He came from a Quaker Liverpool family, and yet was clearly a deeply romantic artist. His work combined the two sides of his character: his plans were brilliantly workable and his experiments with new materials and new forms of construction highly successful, and yet no one designed more romantic skylines or painted more delicate watercolours. He was that rare thing, the artist-architect who was supremely practical.

Waterhouse gave the Prudential's head office the sense of reliabilty and permanence that the company clearly wanted. The big, central Gothic tower over the entrance to the inner court does not soar to heaven: it has a solidity, despite its spiked pyramid roof. There is less detail here than Waterhouse was to apply to the Natural History Museum and much of the internal decoration, although good, is economical and repetitive. Faïence tiles and ornaments gleam after the refurbishment; their vivid colours, especially the sharp yellow, are very vibrant.

In 1989 the great halls did not seem to suit the arrival of personal computers. The days of thousands of clerks had passed. The company wisely decided to restore and refurbish the best of the old buildings and to redevelop the rest of the site over which they had spread, between Holborn, Leather Lane, Geville and Beauchamp streets. Seen from the air, there is now more new than old building on the site. The Prudential's own architects and the firm, EPR Architects, have added two new buildings and four glazed atria, providing many lettable offices as well as the streamlined modern offices within the listed buildings.

There are big gains. Waterhouse Square is now at the centre of the site and is a public right of way in daylight hours. It provides a quiet pedestrian square and an opportunity to see much more of Waterhouse's original buildings. The view of the glazed bridge by Waterhouse is particularly intriguing. What were his sources for this glass bridge of sighs? His use of terracotta is everywhere, demonstrating how sensible and practical it is for the damp northern European climate.

And what of the new work? The Prudential's tradition of patronage continues, particularly in the public spaces of the new offices. In their own main entrance hall, the company has commissioned a work from a young sculptor, Sally Matthews. "The Dogs and the Peacock" is a free-ranging group of lurcher dogs chasing a peacock across the reception hall and up to a high balcony. It symbolises man's faithful friends chasing away vanity and pride. I have to say that although the work is good of its kind, it does not seem to work in this space.

The other new element of this project is the entrance hall to the speculative offices called No. 2 Waterhouse Square. It has become almost the norm for developers to invest a great deal of time and talent in the design of a huge atrium or hall as an approach to what are essentially mundane serviced office floors. This new atrium is no exception, an almost circular space with a sweeping marble staircase that rises behind a ramped curved marble wall. I had a distinct impression that I had somehow strayed from the Victorian probity of Waterhouse's Gothic halls to some millionaire's marble folly in Miami. I have to admit, however, that I was fascinated by the centrepiece of this extravaganza which is a sculptural installation of a great granite sphere which is constantly supported on a pad of water under high pressure that allows it to spin freely, despite its enormous weight.

Waterhouse has been much blessed by this redevelopment. His version of the Gothic does not seem a pale imitation of the medieval. It shines out in its new surroundings as an intelligent, prudent and measured exercise of Victorian civic architecture at its best.

I am sure the masters of the Prudential Corporation are familiar with the Titian in the National Gallery that shows the triple human-headed figure of Prudence and bears an inscription that could be roughly translated as a motto for this redevelopment that has married past and present with some success: "From past experience the present acts prudently lest a future action be vitiated."

Theatre/**Andrew St George**

Jamais Vu, Always mad

At the start of his one-man show *Jamais Vu* at the Cottesloe Theatre, Ken Campbell scans the National Theatre's programme to check what he is supposed to be doing. While the David Hare trilogy continues at the Olivier Theatre, Campbell's own remarkable trilogy can be seen on Saturday 23 October at the Cottesloe. After all, he opened the theatre in 1977 with the eight-hour *Illuminatus*.

Jamais Vu feels like the third leg of a quadruped. Its forerunners are *Recollections of a Furtive Nudist* (1988) and *Pigspurt* (1992). The shows are made up of personal stories which Campbell says he dare not tell his friends: "But it seems all right if people have paid." *Recollections* led Campbell into a case of "enchanted vanishment" tracking down a vanishee from King's Cross to St John's, Newfoundland; *Pigspurt* led him on a sociobiological quest based on the shape of his nose.

Campbell's style is perplexing, infuriating and refreshing; sometimes hilarious, often scatological, and always mad. It is no accident he went to school in Barking. His contribution to British theatre is radical and immense, including a 22-hour show at the ICA and the Science Fiction Theatre of Liverpool; and he has shaped portrayals of lunacy in other media, from *The Hitchhiker's Guide* for radio to his own *The Madness Museum* for television.

Quintessential Campbell is a dizzying monologue which defies gravity before toppling into itself; add the twitching right foot, the eyebrows like elevators and the nasal twang of his voice, and Campbell materialises. In *Jamais Vu* the he uses a sink plunger to model his narrative. This is nowhere near as fine of funny as its precursors, but it does deviate into sense and wit.

The impossible story turns on a notice outside the hut of Chief Jack Naira of Tanna in the South Pacific: *We believe that Prince Pilip* <sic> *is originally of Tanna and we want him to return home*. This information takes Campbell to the Uxbridge Secure Unit to talk to a member of the Ice Age elite, then to discrepant paperback and hardback versions of a Prince Philip biography and on to a world of bicycle clips and Pidgin English: *What-name you-me makim someting?* or "What shall we do?"

En route he stops for the occasional *aperçu*: judges are law students who get to mark their own exams; "*Guardian* columnist" David Mellor has "the look of perhaps going to be witty in a minute"; and John Birt of the BBC is "an alien inadequately briefed, a man with a talent for retrospective absence".

The deconstructive chaos is deftly scripted, patterned and now published. Campbell's brilliance is his bravery and his disregard for what others think of his kind of intelligence. Colin Watkeys tries to direct.

'Jamais Vu' is at the Cottesloe Theatre (071 928 2252) on 13, 14, and 22 October. 'Furtive Nudist', 'Pigspurt' and 'Jamais Vu' are at the Cottesloe on 23 October. 'Jamais Vu' is also at the Riverside Studios (081 748 3354) from 3 to 23 November

Ken Campbell: brave and chaotic in 'Jamais Vu' — Alastair Muir

Concert/**Richard Fairman**

Strauss and Stravinsky

It was the small size of its audiences that originally prompted the BBC Symphony Orchestra to shift some of its South Bank concerts into the smaller Queen Elizabeth Hall. Having made the move, it has evidently decided to turn economic necessity into musical virtue.

Although the orchestra's Strauss and Stravinsky series mostly consists of full-scale works being played in the Royal Festival Hall, Friday's concert was in the QEH and stripped the BBCSO down to chamber-orchestra proportions. The programme explained in some detail how the two composers of this series have nothing in common – an uncontroversial opinion, except that this particular evening showed them heading down very much the same retrospective path.

All the music was signposted "neo-classical". Richard Strauss's Suite from *Le Bourgeois Gentilhomme* evokes the world of Beaumarchais with minuets, the once *enfant terrible* of a composer prancing round in a perfumed wig. Stravinsky's *Dumbarton Oaks* draws its style from Bach and *Pulcinella* its material from Pergolesi. It would be interesting to create a series examining why these forward-looking composers preferred to look back in middle life.

A few years ago it would have been difficult to imagine the members of the BBCSO exposing themselves to music-making on a small scale with any confidence of success, but these days the orchestra has no reason to be afraid. The playing of a dozen or so soloists in *Dumbarton Oaks* was trim, accurate, exactly rhythmical, down to the precise double-dotting of the horns.

We know from his Strauss in the opera-house (and *Daphne* at the start of this series) that Andrew Davis is able to sort out the complex textures of a Straussian orchestral score with lucidity. His performance of the Suite from *Le Bourgeois Gentilhomme* was tightly controlled, but also characterful, witty, cool-headed and chaste where others might surrender to its lusher moments.

As to the *Pulcinella*, there was no comparison between this and Simon Rattle's recent performance at the Proms, which in retrospect was effortful and sluggardly (though he did have more players weighing the music down). Davis and his chamber-sized BBCSO had shed pounds of excess fat and emerged slimmer, fitter, scintillating in the way one always imagined this music should be. Lynne Dawson, John Graham-Hall and David Wilson-Johnson made a fine trio of vocal soloists. Unqualified delight.

Final Strauss and Stravinsky concert at the Royal Festival Hall on 12 October

INTERNATIONAL ARTS GUIDE

■ BERLIN

OPERA/DANCE

Deutsche Oper The company has just returned from a month in Japan, and will present an illustrated report of the tour on Thurs. Repertory performances begin on Fri with Peter Schaufuss' production of Nutcracker, followed by Die Zauberflöte on Sat and Der Rosenkavalier on Sun (341 0249)

Staatsoper unter den Linden Repertory includes Tannhäuser, Rigoletto, Giselle and Roland Petit's new ballet inspired by the paintings of Otto Dix. Oct 30, Nov 7, 14: Daniel Barenboim conducts Harry Kupfer's production of Parsifal (200 4762/2035 4494)

CONCERTS

Schauspielhaus Tonight: Daniel Nazareth conducts MDR Symphony Orchestra in works by Grieg and Mendelssohn, with piano soloist Lars Vogt. Wed and Thurs: Zoltan Pesko conducts Berlin Symphony Orchestra in works by Zemlinsky and Mahler (2090 2156)

Philharmonie Tomorrow: Pinchas Zukerman, accompanied by Marc Neikrug, plays violin sonatas by Mozart, Beethoven and Mendelssohn. Wed, Thurs, Fri: Claudio Abbado conducts Berlin Philharmonic Orchestra in a Mahler programme, with soprano soloist Barbara Bonney (the orchestra is on tour in North America Oct 17-Nov 1). Sat: Maurizio Pollini plays Beethoven piano sonatas (2548 8232)

Staatsoper unter den Linden Fri and Sat: Georg Solti conducts Haydn's The Creation (200 4762/2035 4494)

■ NEW YORK

THEATRE

● Later Life: A.R. Gurney's witty and perceptive new play about the reunion after 30 years of a man and woman who were once in love (Westside, 407 West 43rd St, 307 4100)

● Angels in America: the first half of Tony Kushner's epic, freewheeling play about gay life, Reagan-era politics and Mormonism. Not to be missed (Walter Kerr, 219 West 48th St, 239 6200)

● She Loves Me: the 1963 Bock, Harnick and Masteroff musical makes a long-awaited return to Broadway in a transfer of Scott Ellis' Roundabout Theatre production first seen in June. A delicate, unabashedly simple story, with all the humanity, integrity and charm that Broadway's glitz-laden mega-musicals lack (Brooks Atkinson, 256 West 47th St, 307 4100)

● Kiss of the Spider Woman: a Kander and Ebb musical, based on the novel by Manuel Puig, directed by Harold Prince, with a star performance from Chita Rivera in the title role (Broadhurst, 235 West 44th St, 239 6200)

● Annie Warbucks: Kathryn Zaremba, an infant phenomenon if ever there was one, has the title role in this beguiling sequel to Annie (Variety Arts, Third Ave at 14th St, 239 6200)

● Fool Moon: a comic entertainment written and performed by David Shiner and Bill Irwin, with music by the Red Clay Ramblers (Richard Rodgers, 226 West 46th St, 307 4100)

● The Sisters Rosensweig: Wendy Wasserstein's play, a comedy with serious undertones, about the reunion in London of three American Jewish sisters (Ethel Barrymore, 243 West 47th St, 2396200)

● Tommy: a musical written and composed by Pete Townshend, based on the classic 1969 rock musical by The Who and directed by Des McAnuff (St James, 246 West 44th St, 239 6200)

OPERA/DANCE

Metropolitan Opera Repertory for the next two weeks consists of Fidelio with Gabriela Benackova and Marie McLaughlin, Tosca with Maria Guleghina and Sherrill Milnes, Madama Butterfly with Yoko Watanabe and Richard Leech, and Die Zauberflöte with Dawn Upshaw and Hans Sotin. Placido Domingo sings the title role in a new production of Verdi's Stiffelio opening on Oct 21 (362 6000)

State Theater This month's New York City Opera repertory includes Tosca, Madama Butterfly, La Rondine, Carmen and The Mikado. There is a final performance tomorrow of Ezra Laderman's new opera about Marilyn Monroe (870 5570)

City Center Martha Graham Dance Company is in residence till Sun (581 1212)

CONCERTS

Avery Fisher Hall Tomorrow: Kurt Masur conducts New York Philharmonic in works by Glinka, Tchaikovsky, Liszt and Janacek, with violin soloist Sarah Chang. Thurs, Fri morning, Sat and next Tues: Zdenek Macal conducts Rossini, Mozart and Dvorak, with flute soloist James Galway. Fri evening: Seiji Ozawa conducts Boston Symphony Orchestra in New York premiere of Henze's Eighth Symphony, plus works by Berlioz. Oct 22: Masur conducts Leipzig Gewandhaus Orchestra (875 5030)

Carnegie Hall Tomorrow: Peter Serkin plays Bach's Partita No 6 and Goldberg Variations. Fri and Sat: Lorin Maazel conducts Pittsburgh Symphony Orchestra in two programmes, including symphonies by Brahms and Mahler. Oct 28, 29, 30: Claudio Abbado conducts Berlin Philharmonic (247 7800)

■ PARIS

OPERA/DANCE

Opéra Bastille This month's repertory is Der fliegende Holländer and Les Contes d'Hoffmann. The Wagner (final performances tonight, Wed, Fri, next Mon) is staged by Werner Herzog and conducted by Myung-Whun Chung, with alternating casts. The Offenbach (next performances tomorrow, Thurs, Sat) has a cast led by David Rendall, Gregory Yurisich and Luciana Serra (4473 1300)

Palais Garnier Twyla Tharp and Dancers are in residence from Wed till Sat with two programmes. Oct 23-Nov 3: Ballet de l'Opéra de Paris presents a Jerome Robbins programme (4742 5371)

Théâtre de la Ville French choreographer Karine Saporta presents a new work featuring dancers of the Centre Choreographic National de Caen. Daily from Wed to Sat (4274 2277)

Châtelet Frankfurt Ballet is in residence from Oct 20 to 30 with two William Forsythe programmes (4028 2840)

CONCERTS

Théâtre Champs-Elysées Tonight: Vladimir Ponkin conducts New Symphony Orchestra of Moscow in a Rakhmaninov programme, featuring the Second Piano Concerto (Nelson Goerner) and one-act opera The Miserley Knight. Thurs: Philippe Herreweghe conducts La Chapelle Royale in sacred works by Gesualdo and Lassus. Sat: David Shallon conducts Jerusalem Symphony Orchestra in Mozart, Bernstein and Brahms. Sun morning: Musicians from Marlboro play chamber music by Mozart and Mendelssohn. Next Mon: Jean-Philippe Collard piano recital. Next Tues: Lucia Aliberti sings Italian opera arias. Oct 21: José Carreras. Oct 27, 28: Riccardo Muti conducts Orchestra National de France. Oct 29: Seiji Ozawa conducts Vienna Philharmonic (4952 5050)

Salle Pleyel Wed, Thurs, Fri: Semyon Bychkov conducts Orchestre de Paris in works by Shostakovich and Zemlinsky, with vocal soloists Edith Wiens and Eike Wilm Schulte. Oct 20, 21: Boulez conducts Messiaen (4561 0630)

Maison de Radio France Sat: Yehudi Menuhin conducts Orchestre Philharmonic de Radio France in symphonies by Bizet and Beethoven (4230 1516)

Salle Gaveau Sun morning: Marc Minkowski conducts Les Musiciens du Louvre in works by Leclair and Telemann (4230 1516)

JAZZ/CABARET

● Chubby and Duffy Jackson Quintet, pairing veteran swing bassist Chubby with his virtuoso percussionist son Duffy, are in residence this week at Lionel Hampton Jazz Club. Music daily from 22.30. Oct 18-30: New York Voices (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

● Paris International Jazz Festival takes place during the last 10 days of the month, with a line-up including Betty Carter, Steve Grossman Quartet and Bill Evans Band. Concerts take place at Théâtre de la Ville and Maison de Radio France (4274 2277/4230 1516)

THEATRE

Jorge Lavelli's Avignon Festival production of Edward Bond's latest play, entitled Maison d'Arrêt, opens on Wed at Théatre National de la Colline (4366 4360). Bob Wilson's stage adaptation of Virginia Woolf's Orlando, starring Isabelle Huppert, runs daily except Mon till Oct 24 at Odeon-Théâtre de l'Europe (4441 3636). Théâtre de Gennevilliers has Shakespeare's Macbeth, directed by Bernard Sobel, till Oct 31 (4793 2630). Théâtre Nanterre-Amandiers has Eugene O'Neill's Desire under the Elms, directed by Matthias Langhoff, till Nov 4 (4614 7000)

ARTS GUIDE

Monday: Berlin, New York and Paris.
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Friday: Exhibitions Guide.

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A navy all at sea

Ukraine is backtracking on the Black Sea deal, says David White

The grey, trawler-like ship moored in front of the famous steps at the port of Odessa flies one of the rarest sights on the seas: the blue cross and trident emblem of a Ukrainian naval flag.

The Slavutich, an intelligence-gathering vessel, represents a quarter of Ukraine's fledgling navy. During its two-year naval dispute with Russia, independent Ukraine has bagged one light frigate that defected from the rest of the fleet and has commissioned ships that were under construction at its shipyards – a frigate, another light escort ship and the Slavutich. It also has a hovercraft.

The remainder of the once-proud Black Sea fleet, which traces its traditions back to Empress Catherine the Great of Russia, remains in an extraordinary post-Soviet limbo.

A summit on September 3 between Ukraine's President Leonid Kravchuk and Russia's President Boris Yeltsin at Massandra in the Crimea appeared to have settled the fleet's future status. Ukraine would give up its entitlement to half the 300-vessel fleet. In exchange, Russia would write off Ukraine's debts to it for oil, gas and electricity, estimated at $2.5bn.

But Ukraine has been backtracking ever since. A joint Ukrainian-Russian commission was set up for more detailed discussions, but the Massandra pact now seems to be a dead letter. The other agreement reached there, allowing Russia to take away strategic nuclear weapons deployed in Ukraine, has also run aground, with the two sides differing about what they actually signed up to.

Mr Yeltsin negotiated the naval deal from a position of strength. From a Russian viewpoint, it seemed financially quite generous. Mr Kravchuk had to take it or leave it.

But back in Kiev Mr Kravchuk met stiff opposition inside and outside the government. The first question put by a journalist was how he felt about betraying his country. His defence minister at the time, General Konstantin Morozov, quickly distanced himself, saying he could not be responsible for defending Ukraine's southern flank if the deal was implemented. He quit the government last week.

Ukrainian officials now say the agreement was only to study the question of a sale, emphasising that the ships-for-debt scheme was a Russian proposal.

Last week's violent showdown in Moscow between Mr Yeltsin and his political opponents has complicated the issue still further – reinforcing the Russian military's political influence and at the same time making Ukrainians even more wary of their volatile big neighbour.

The fleet, with 70,000 personnel, about 40 major warships, 18 submarines, some 250 other vessels and a similar number of aircraft and helicopters, has been the focus of tension between the two countries. But more contentious than the ships themselves are the shore-based support facilities, above all the Crimean headquarters.

Kravchuk warned: 'We could well have lost both the fleet and the Crimea'

Sevastopol. Russia's now disbanded parliament outraged Ukrainian nationalists by questioning the Crimea's status as part of Ukraine and passing a resolution in July claiming Sevastopol. The Crimea, with a majority Russian population, was given to Ukraine in 1954, when no one foresaw the break-up of the Soviet Union.

Mr Kravchuk, trying to justify himself on television, warned that pressing Ukraine's naval claims could have sparked a revolt. "We could well have lost both the fleet and the Crimea," he said.

Kiev's position is that the Russian and Ukrainian navies must be separated and that the Russians must, in time, withdraw from Ukraine. Officials say facilities could be shared while Russia builds an alternative base. Ukraine proposed at Massandra including a protocol about renting Crimean bases.

But, say the officials, the Russian side would not accept the concept of rent, since that would acknowledge Ukraine's ownership.

Earlier accords have been equally flimsy. Moscow's first plan was to assign the fleet, or at least its main warships, to the Commonwealth of Independent States' joint forces. In January last year, a framework agreement was reached to give part to Ukraine. There followed three summit deals prior to Massandra:

- June 1992, in the Russian Black Sea resort of Dagomys. The fleet would in principle be split.
- August 1992, at Yalta. Up to 1995, the fleet would come under a joint commander, answering to both presidents. This was unpopular in Ukraine.
- June 1993, in Moscow. The fleet would be split 50-50, with joint use of Sevastopol.

This latter plan, implementation of which was due to start in September, provoked near mutiny among the fleet's conservative, Russian-dominated officer corps. The joint commander, Russian Admiral Eduard Baltin, called it "ruinous". He had to stop his officers repeating their protest of the previous month, when two-thirds of the fleet hoisted the Tsarist-era Russian naval flag, a blue St Andrew's cross.

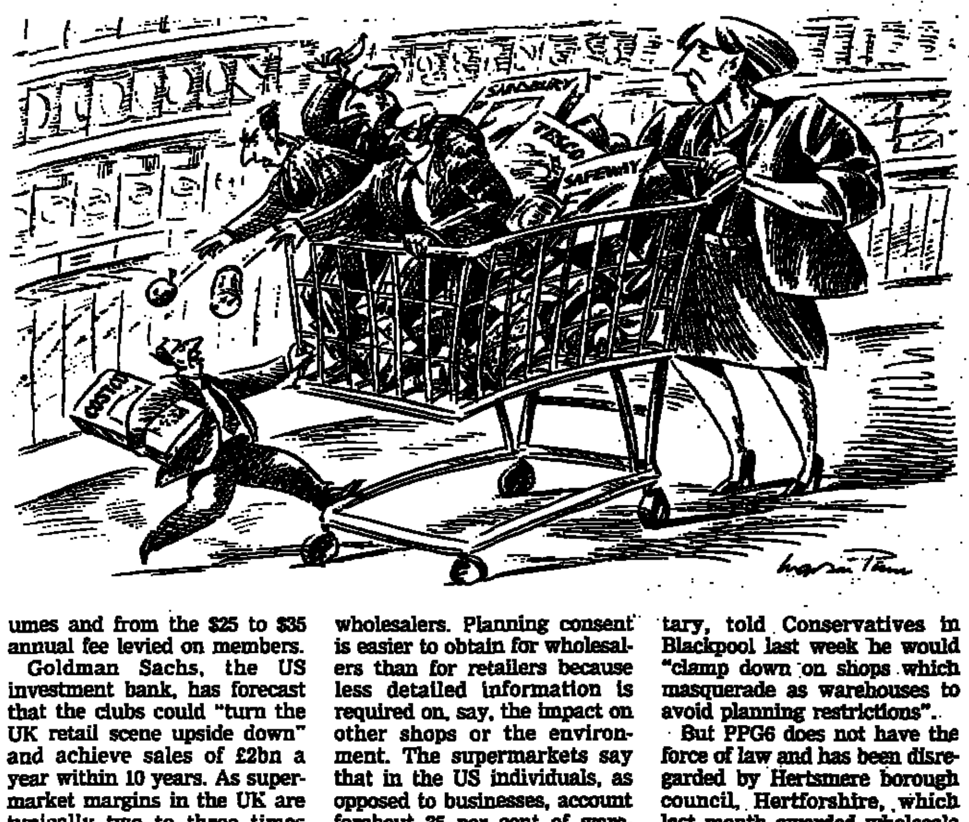
For now, the fleet's warships have orders to fly the Soviet navy flag, one of the last remaining institutions to carry the old emblems. But tugs and other auxiliaries in Sevastopol fly Russian ensigns, and a corner of the harbour is reserved for the tiny Ukrainian-flag navy. It is, according to one military observer, "a complete farce".

Ukraine is clearly ready to relinquish at least part of its theoretical 50 per cent share. Officials admit the fleet is of less military than economic interest to the country. "Many of the ships are old. We can sell them ... to Russia or another country."

On the other hand, the Ukrainians want to build up a proper navy to protect their 600-mile coastline and shipping lanes. By 1995 they will have 10 warships built. Shortly to join the fleet is a guided-missile cruiser, provisionally christened Bohdan Khmelnitsky, after the 17th-century leader of a Cossack rebellion against Poland. Ironically, the same man is held responsible for subsequently subjecting Ukraine to the rule of Moscow. For nationalist Ukrainians it might seem a bad omen.

Neil Buckley on a row between UK supermarkets and newly arrived warehouse clubs

New boys braced for store wars



Mr Paul Moulton, the head of Costco Europe, a subsidiary of the US group, jokes about his recent visit to the UK Department of Trade and Industry to discuss plans to bring warehouse clubs – which offer cut-price goods to members in no frill stores – to the UK.

"Who did I have to speak to?" he asks. "A guy named Sainsbury."

The reference is to Mr Tim Sainsbury, trade minister and cousin of Mr David Sainsbury, chairman of one of the UK's biggest retailers, J Sainsbury. Mr Moulton does not imply any impropriety in the relationship between the group and the DTI: his point is that, for outsiders trying to enter the UK retailing market, chains such as Sainsbury, Tesco and Safeway are powerful and ubiquitous opponents.

Now the "big three" chains have taken the unprecedented step of launching joint legal action against their potential competitor. The High Court will next week hear an application from the three for the quashing of planning consent for Costco's first UK warehouse club, at Thurrock, Essex. They say it was wrongly assessed as a wholesaler, rather than as a retailer.

The superstore chains have instigated legal action, on the same grounds, against another warehouse club project by UK cash-and-carry operator Nurdin & Peacock at Wednesbury, west Midlands.

The "big three" say they are opposing the clubs on a point of principle in planning law. But Mr David Poole, chief executive of Nurdin & Peacock, accuses the big three of a "sinister" attempt to "strangle warehouse clubs at birth".

Nervousness on the part of the big grocers caused by the arrival in the UK of a new breed of retailer is understandable. In the US, the five biggest warehouse club chains have grown from virtually nothing to sales of more than $28bn last year. Their combined operating profits exceeded $760m.

The concept of warehouse clubs is simple. They use large sheds to sell a range of about 3,500 goods, from cat food to camcorders, at low prices – 25 per cent or more below high street prices – to a limited membership of trade customers and individuals.

Costs are kept low by selecting cheaper sites that many retailers would reject and cutting frills, such as expensive fittings. The clubs make money by shifting large volumes and from the $25 to $35 annual fee levied on members.

Goldman Sachs, the US investment bank, has forecast that the clubs could "turn the UK retail scene upside down" and achieve sales of £2bn a year within 10 years. As supermarket margins in the UK are typically two to three times higher than in the US, warehouse clubs would not have to cut their margins as much to undercut the opposition.

But if this spells uncertainty for UK retailers, the stakes for Costco are also high. Its drive to expand overseas is prompted partly by the much tougher conditions which US warehouse clubs face at home.

Increased competition has led to saturation in some areas, while general-purpose outlets such as Costco are being challenged by a new generation of clubs specialising in products such as electrical goods. Last summer, Price Co, which pioneered the warehouse club business, was forced into a distress merger with Costco.

The big three UK supermarkets insist fear of competition is not the reason for their battle against Costco and N&P. They say it is unfair that warehouse clubs are classified as wholesalers. Planning consent is easier to obtain for wholesalers than for retailers because less detailed information is required on, say, the impact on other shops or the environment. The supermarkets say that in the US individuals, as opposed to businesses, account for about 35 per cent of warehouse club customers and a higher percentage of turnover.

The fears that the big retailers may have about the new arrivals could be unnecessary

"We are not interested in denying warehouse clubs their place in the UK market," says a spokesman for the big three. "We are just asking for everyone to have to play by the same rules."

The government has tried to clarify the dispute. A department of the environment planning policy guidance note, PPG6, advises local authorities that "planning decisions should regard [warehouse clubs] as retail uses". Mr John Gummer, environment secretary, told Conservatives in Blackpool last week he would "clamp down on shops which masquerade as warehouses to avoid planning restrictions".

But PPG6 does not have the force of law and has been disregarded by Hertsmere borough council, Hertfordshire, which last month awarded wholesale planning permission for a second Costco warehouse club, at Bushey, outside London.

Safeway, Sainsbury and Tesco say they want to establish a legal definition of warehouse clubs as retailers to confirm the government's policy guidance.

For Costco, Mr Moulton disputes that warehouse clubs are retailers, saying that Costco is aiming to attract business from trade customers. He expects most customers to be small independent shops, restaurants and cafes. But Mr Moulton says the food superstores' case is largely based on allegations that Costco failed in some cases to follow planning procedure to the letter. "It is over process rather than issues," he says. Safeway, Sainsbury and Tesco are, he believes, trying to obstruct Costco.

Even if Costco lost next week the long-term future of warehouse clubs need not be jeopardised. It could delay and push up the cost of Costco's projects at Thurrock and Bushey, and N&P's project at Wednesbury, forcing them to submit new applications for planning consent. Future developments may take longer and cost more in the planning stages. But the advantage warehouse clubs have in being able to use cheaper sites will remain. Mr Richard Hyman, chairman of Verdict, the retail research company, says: "Will a negative judgment put their costs up? Yes. Will it make them pay a bit more for their land? Yes. Will it stop them? Definitely not."

However, the fears that the big retailers may have about the new arrivals could be unnecessary. Verdict estimates that, in the foreseeable future, the clubs are unlikely to account for more than about 2 per cent of the total retail market. "Evidence in the US is that the clubs cream off a little bit of business across a range of sectors," says Mr Paul Morris, retail analyst at Goldman Sachs.

Moreover, the big three's campaign could have backfired. One senior executive of a warehouse club operator says: "A few months ago, I was sitting with the marketing director wondering how on earth we could educate the British public about warehouse clubs. The supermarkets have done the job for us."

Some retail industry observers believe that the big three retailers' action reflects wider problems. The recession, customers' price sensitivity, the influx into the UK of other cut-price operators such as Aldi of Germany, and the increasing number of stores chasing sales in a fairly static market, have put extra pressures on the large supermarkets.

"They are feeling very vulnerable," says Mr Hyman. "In no other retailing sector have the leading players had such control. But for the first time for a decade, these people don't know what is going to happen six or 12 months down the line."

Critics who see the big supermarkets' joint efforts to halt the warehouse clubs as evidence that they are really a cosy cartel may be exaggerating. Yet the vigour of their response suggests they may fear a bigger threat to their dominance of food retailing than they have so far been ready to admit in public.

Additional reporting by Guy de Jonquières

LETTERS TO THE EDITOR

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Tide must turn against ageism in workplace

From Ms Amanda Bennett.

Sir, At last. Your report of the Eurolink Age study of age discrimination ("Ageism in the workplace", October 7) rightly asks why a large part of the country's workforce is constantly swimming against the tide. As well as changes to pensions and retirement arrangements, we can learn a lot from how other countries organise their affairs.

This week people who care about age discrimination will examine what is on offer for older workers throughout Europe at a big European Year conference (October 11-13). The aim is to encourage all employers fully to recognise the value of their older staff, and to train them to the limits of their potential. But everyone throughout industry and commerce needs to look at their own attitudes towards older people in their workplace, and at the effects of their employment practices across the board.

In this European Year the tide must be turned on this particularly insidious and destructive form of discrimination.

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Nuclear energy a failed option

From Mr Scott Denman.

Sir, Ann Bisconti, employed by the US nuclear industry to paint rosy pictures, makes a valiant, but vain attempt at statistical revisionism in her letter, "US public backs nuclear energy option" (September 29).

All recent independent national opinion surveys not generated by the nuclear industry definitively show that Americans have had enough of the costly, dangerous and unreliable nuclear power "option". Since 1982, the Harris polls, Breglio/Lake and Frederick/Schneiders have all found that 60 per cent or more of all Americans "oppose the building/construction of more nuclear power plants in the US". In fact, each year since 1975 that this unambiguous question has been asked, the result has always been a steady increase in opposition. In 1992, 65 per cent of those polled were opposed to more nuclear power development.

The 1992 poll by Frederick/Schneiders, commissioned by the Safe Energy Communication Council, found that 76 per cent of Americans want the nation to give top priority to renewable resources (like solar, thermal and wind), energy efficiency and conservation, and natural gas (in that order). Nuclear power was placed a distant fourth with only 11 per cent.

It is time for Ms Bisconti and other nuclear cheerleaders to face the music of the market place. Despite receiving 65 per cent of all US energy research and development funds since 1948, every US nuclear power plant ordered since 1973 has been subsequently cancelled. From main street to Wall Street, the nuclear "option" has failed the economic litmus test. The problem of sage, permanent nuclear waste disposal remains intractable and unsolved. Safer, cleaner and cheaper options exist today in the US and abroad.

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Market place confused on environment

From Dr A S Hearne.

Sir, Ian Rodger ("Accounting for 'green' efforts", September 29) is critical of Ciba's recent corporate environmental report for its apparent lack of clarity and comprehensiveness. He is focusing on the wrong target. He should be focusing upon the way the market place is treating environmental issues.

Despite expressions of good intent from governments and inter-governmental agencies, the market is in a state of confusion. There is no obvious way of turning sustainable development into sustainable profits, particularly when the economy needs rebuilding after recession. Consumers are showing resistance to paying a premium for environmental goods. Many companies, rather than adopting the government preferred route of Batneec (Best available technology not entailing excessive cost) are driven by poor profitability Catnip (Cheapest available technology not involving prosecution)!

Environmental management systems from the British Standards Institute (BS7750) and the EC (Emas) are complex, confusing and unnecessary for the vast majority of businesses. The EC eco-labelling initiative is proving difficult to get into effective operation. (How do all those bureaucratic processes fit with de-regulation?)

With such a confused market we cannot expect companies to be clear about the best ways of reporting. When the legislators, institutional investors and consumers are clear about what they want, the market will deliver it and companies will tell us how it is done. The cart needs a horse – preferably at the front.

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A question mark over gains expected from a Gatt agreement

From G A Roussopoulos.

Sir, I wish to question Samuel Brittan's presentation of the gains to be expected from a successful conclusion to the General Agreement on Tariffs and Trade negotiations ("Where Gatt's $200bn really comes from", October 4).

First, the reference to net world annual gains of $213bn a year by 1992 is in itself no more than a rhetorically stunning device. Its real significance is indeed best shown as 0.75 per cent of world income at that time, plus or minus an uncertainty factor which probably exceeds that figure, and which should be seen in the context of uncertainties in the income itself in 2002, which can hardly be less than plus or minus $1,300bn. Nor may it be assessed, as he suggests, as a third of a normal year's growth because it is not a renewable extra element each year, but, if it arises, a once for all increase to a first order of approximation. It may also be compared with inherent errors in the estimations of past actual incomes which themselves are likely to exceed that 0.75 per cent. In other words, the eventual effect will be so small as to be untraceable.

Second, one cannot confine oneself to a purely technical economic analysis – there are factors to be considered of probably far greater importance to the man in the street than a financial effect of 0.75 per cent, even if economists prefer to neglect them because they are outside their frame of reference, or because it has become politically incorrect in recent years to question whether wholly free markets are always a good thing.

The experience of quasi-free global financial markets in which aleatory surges of Gadarene financial opinion often swamp longer-term aspects would suggest that the erection of partially autarkic zones, acting like dams on a great river, may save millions of people from sacrificial drowning on the altar of abstract three-quarter per cent trade theory without reducing the availability of water. While the Soviet extremity of the economic spectrum has been spectacularly discredited, one should also note that the opposite end, perhaps best represented by the US, has equally clearly demonstrated its own limitations in recent decades.

Variety in societies is important. Nations should retain freedom to seek their own balance between financial and other indicators of a good life.

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FINANCIAL TIMES

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Monday October 11 1993

Priorities for EC growth

AT THEIR WEEKEND gathering in Belgium, most European Community finance ministers had two purposes uppermost in mind. The first was to show the Community is still somehow on track for economic and monetary union by the end of the decade, despite the emergency widening of currency fluctuation bands in August.

The second was to develop a strategy for economic recovery, without which any plan for improved monetary co-ordination – let alone the much more ambitious target of irreversibly fixed exchange rates – will founder.

The ministers are a long way from accomplishing either objective. But by apparently placing greater emphasis on the second aim rather than the first, they seem to be drawing sensible conclusions from the crisis in the exchange rate mechanism.

Ministers stressed the need to restore convergence of recession-hit EC economies, but rejected rigid targets for a return to greater exchange rate stability. This order of priorities is a necessary – but not sufficient – condition for eventual resumption of the annual 3 per cent growth rates needed to bring down unemployment.

The ministers wisely put aside the earlier idea of reintroducing narrow ERM bands on January 1 1994. Instead, the system will continue indefinitely in its new flexible form. ERM members thus have more opportunity to tailor their monetary policies to their own needs rather than to Germany's. Countries which have not yet made use of their flexibility to make more aggressive cuts in short-term interest rates should be preparing to do so.

The French government argues that, by not responding to the August widening of bands with greater monetary easing, it has sustained sufficient credibility to enable long-term French interest rates to fall to German levels. In spite of the strains of unification, yields on long-term German debt are now just below 6 per cent, for only the third time in 25 years.

However, precisely because of France's achievement in reducing its inflation rate to well below Germany's, real long-term interest rates in France, as in most other EC countries, are still too high.

An important pre-condition for the necessary further fall in capital market interest rates, in Germany and elsewhere, is that Germany itself reaches long-delayed convergence with most of its EC partners by reducing its inflation rate to the Bundesbank's 2 per cent target.

To prepare the way for recovery, EC governments need to reassert fiscal control and to implement growth-generating measures. One welcome sign is the effort many EC countries are now making to cut rigidities in labour markets. As Mr Jacques Delors, the Commission president, stated at the weekend, a quick EC escape from recession is unlikely. But by re-establishing the primacy of economic reality over political vision, the Community is helping to ensure that the recovery, when it comes, will be sustainable.

Cutting red tape

MR NEIL HAMILTON, the minister in charge of the UK government's deregulation initiative, made a fine knock-about speech at last week's Conservative party conference. At one point, he produced a print-out several feet long listing 3,500 regulations burdening business and ripped it to pieces. Unfortunately, hacking back the jungle of red tape will not be as easy as tearing up a piece of paper in front of the party faithful. Everybody applauds the idea of cutting red tape in theory. But when it comes to repealing specific rules, enthusiasm can rapidly turn to hostility.

The snag is that one person's regulation is another's protection. Rules are used to protect workers' jobs, consumers' health, investors' wealth and even big businesses from competition. Regulation can also be attractive to the Treasury as an alternative to public expenditure. Given the vested interests stacked up against an assault on red tape, it is not surprising that many observers believe the initiative will run out of steam.

The prognosis is probably not so dire. A deregulation bill, to be introduced in the autumn with strong backing from Mr John Major, will subject every regulation to a cost-compliance test. Given that form-filling and the like is estimated to cost business 2-3 per cent of GDP, calculating administrative costs could get legislators to think twice before legislating. Ideally, some estimate of the overall economic costs should be attempted as well. Regulation can prevent managers from devising the most efficient methods of running their businesses, which is even more expensive than the crude compliance costs.

But other tools are also needed for an effective campaign. One could be to adopt the US practice of "sunset" regulation, where rules automatically expire after a certain date unless legislators make a conscious decision to renew them. Another could be to spell out the way that regulation can be counter-productive. For example, it seems likely that railway safety rules have so added to fares that passengers have switched to cars – a much more dangerous method of travel.

The really radical approach would be to adopt a new philosophy to regulation. Government should set out general regulatory objectives instead of specifying detailed ways of achieving those objectives. Such an approach would, for example, allow a mass of detailed health and safety rules to be replaced by more generally-defined duties on employers to take care of workers' health. The incentive to do so would be the threat of large damages.

Mr Hamilton will win easy plaudits by repealing a few dotty rules such as that requiring people baking cakes at home for charities to have two separate sinks. But the danger is that ministers will be content with such a piecemeal approach, while leaving the bulk of regulations untouched. If that happens, the conference boasts will come to nothing.

Unbending steel

THE FURTHER breakdown of talks on the multilateral steel agreement (MSA) in Geneva last Friday may not have been wholly surprising, but it is dispiriting all the same. The issue's importance goes far beyond the steel industry. Until the MSA is settled, there can be no agreement on steel tariffs under the GATT: and until steel tariffs are settled there can be no conclusion to the Uruguay Round, due by the end of this year.

The sticking point last week seems to have been the same as before. Although 30 countries are involved, the nub of the argument concerns the US and the EC. The US negotiators condemn EC subsidies; the EC negotiators rail against US tariffs. It is inconceivable that either tariffs or subsidies could be abolished, by the end of the year at any rate. US companies are entitled to protection under US anti-dumping legislation. EC voters will not accept massive steel closures without subsidies to ease the pain.

The EC steel crisis is at the root of the difficulty in more ways than one. Mr Karel van Miert, the EC's competition commissioner, has to perform the usual Brussels juggling act between the competing claims of member states while at the same time staying within the EC rules on subsidies and state aids. On top of all that, he has to ask himself whether the result will satisfy the negotiators around the MSA table. It seems a lot to expect by Christmas.

Perhaps the situation looks unduly gloomy in a European perspective. There is a view in Washington which says that agreement was scarcely to be expected this far away from the deadline: wait till next month, and it will be another matter. In any case, runs this argument, the Clinton administration has in recent weeks spent as much time listening to US steel users, who are naturally opposed to tariffs, as it has to producers. If Mr Clinton is turning his back on big steel, this certainly represents a break with tradition. This is also an administration which believes in industrial policy, at least by comparison with its two predecessors. It is therefore more likely to see eye to eye with Brussels on matters of ideology.

If this proves the case, well and good. It is worth considering what steps to take if it does not. Somehow or other, the GATT negotiators seem to have got themselves into a position in which momentous issues of world trade cannot be agreed in principle until the details of one particular commodity have been hammered out in practice. This seems a peculiarly perverse mismatch, given that the commodity in question is beset by difficulties caused not merely by the world recession but by the fall of the Berlin Wall. It would plainly be preferable for the MSA to be agreed by the year end. If it cannot, it would be sensible for the GATT negotiators to be pragmatic. Fix the outlines of a steel tariff agreement, settle the Uruguay Round, and tidy up the details later.

The pressures to privatise telecommunications in the EC look irresistible, writes Andrew Adonis

Whose line is it anyway?

It is a fair bet that most of Europe's state telecommunications companies will be privatised over the next five years.

By the end of the decade, telecommunications could be Europe's largest equity sector, ahead of banking. "In the next three years alone, telecoms companies with combined capitalisation of $44bn look set to come to market," says Mr Richard Ryder, telecoms analyst at Salomon Brothers.

The pressure to privatise comes from three sources: overburdened state budgets; under-resourced state telecommunications networks; and the liberalisation of national and international telecoms markets, which is undermining the position of state monopoly public telecommunications operators (PTOs).

The balance of pressure varies between countries. But none is immune and, with the European Community now resolved to liberalise national markets for voice telecommunications traffic from January 1998, pressure can only increase.

The predicament of Ireland's Telecom Eireann illustrates the position of Europe's small and medium-sized PTOs. In some respects, TE is not unfavourably placed. Ireland has been granted a five-year extension beyond the 1998 competition deadline, so a state-owned TE could hide behind its monopoly for another decade. After a heavy investment programme in the late 1980s, three-quarters of Ireland's exchanges are digital and TE provides an array of value-added services such as call-itemisation on bills.

Yet few TE executives believe the status quo is viable, even in the medium term. Overseas operators offering businesses call-back and leased-line facilities are fast eroding TE's international revenue. To staunch the flow, a recent radical "rebalancing" of tariffs has reduced TE's international prices sharply, while increasing local charges.

But that is only a palliative. Interest charges on 1980s investment are consuming half of TE's operating profit. If margins continue to fall, TE's investment plans will suffer; so will the profits the government creams off.

The worst-case, but plausible, scenario for five years hence is dire. It has overseas operators forcing down TE's international tariffs and taking a large slice of its profit; with dearer local calls, voters are attracted to claims that price cuts will result from competition from, say, cable TV operators offering telephone services; and state-owned TE is left with a £1bn debt, an ageing network, 10,000 employees and a universal service obligation in a country with more remote rural subscribers than New Zealand.

It is not surprising, then, that TE is engaged in talks with Cable and Wireless, the UK group, about a possible alliance. When news of the C&W talks broke in the spring, Brian Cowen, Ireland's communications minister insisted that "privatisation is not on the agenda". Yet in accepting that alliances were vital to maintain TE's position "in a sector which is moving at an accelerating rate", he highlighted the dynamic likely to prompt privatisation sooner or later.

The scale of the sales involved in these privatisations is breathtaking. Severing links between PTOs and the public sector confronts established interests at every turn. The regulatory implications are equally far-reaching, challenging notions that the state should control "strategic" industries.

For investors, telecoms companies and merchant banks queueing to offer their services, the opportunities created by privatisation are legion. Current evidence suggests former state PTOs will head the list on most of Europe's stock exchanges in terms of capitalisation, opening up a large blue-chip sector for institutional investors. Telecommunications companies keen to diversify will have an array of new strategic options.

The UK led the way on telecoms privatisation. The sale of British Telecommunications was completed this summer, nine years after the disposal of the first tranche of government shares. At nearly £27bn, BT has a capitalisation far ahead of any other UK-based company.

Across the rest of western Europe, the industry can be divided into four broad groups.

● Listed companies. Part or all of the PTOs of Denmark, Spain, Italy and Portugal are listed companies.

Only a third of the shares in Telefónica, the Spanish operator, are still owned by the state. Nearly half of the shares of Stet, the Italian telecommunications holding company, which controls six operating and manufacturing companies, are in private hands. Marconi, one of Portugal's three state operators, which handles international traffic, is only 51 per cent state-owned. Eleven per cent of the shareholders in Tele Danmark, the Danish PTO formed two years ago from the merger of four regional operators, are non-government.

The Danish government plans to reduce its PTO stake to 51 per cent over the next year, probably in a sale next spring. Both the Spanish and the Italian governments are likely to reduce their PTO holdings before long. The Portuguese telecoms industry is being rationalised and further privatisation is under discussion.

● Companies to be privatised from scratch. Germany and the Netherlands are the principal candidates. A bill to privatise KPN, the Dutch postal and telecommunications operator, is before the Dutch parliament. Legislation to alter the German constitution is to be introduced this autumn to allow for the sale of shares in Deutsche Telekom. More tentatively, Turkey's governing coalition has agreed to privatise 49 per cent of the country's PTO.

● State-directed PTOs. A decade ago, virtually all Europe's PTOs fell into this category. Only Austria, Norway, Luxembourg and Switzerland are likely to remain there. Should the Greek socialists take power after yesterday's election, Mr Andreas Papandreou, their veteran leader, is pledged to halt the privatisation of OTE, the Greek PTO. Its fate thereafter is unclear.

● Corporations. Five PTOs – those of Belgium, Finland, France, Ireland and Sweden – are, or soon will be, corporations. Although still owned by the state, as corporations they have legal autonomy and substantial operational independence.

Most of the corporations are heading towards privatisation at greater or lesser speeds. "Given the pressure to introduce competition and fund expensive investment programmes, I would expect most of them to be in the private sector within five years," says Ms Kathy Burrows, telecoms analyst at Dataquest Europe, a consultancy.

'In the next three years, telecoms companies with total capitalisation of $44bn look set to come to market'

What differentiates them is mainly how open their governments are about the likelihood of privatisation. Ireland's centre-left government repudiates the notion. By contrast, Belgium's prime minister has indicated general support for privatisation of Belgacom. His government is under intense pressure to reduce the country's deficit, now approaching 7 per cent of GDP, and privatisation receipts are an alluring prospect.

In July, Belgacom forged a strategic alliance with Pacific Telesis (Pactel), the US regional operator, to build Belgium's new digital cellular network. Pactel will take a 25 per cent stake in the network and participate in management. The deal is widely regarded as a trial run for full privatisation – although almost certainly with a different, possibly European, partner. If the politicians can agree a scheme, a sale may not be far off.

Europe's telecoms privatisations will not be carbon copies of each other. Each PTO has peculiarities of its own. In particular, the status of employees varies widely. Those countries, like Germany and Belgium, where most employees have civil service contracts, face a legal and political minefield.

However, two models are emerging. Governments with PTOs that believe they can thrive in the emerging global telecoms market without a strategic partner are likely to follow the UK in floating their PTOs in tranches, with the intention of disposing of most shares.

The Netherlands is proceeding down that road. A first tranche of shares in KPN will be sold early next year; a further sale is expected to follow by 1996, reducing the government stake to about 30 per cent. That will not preclude KPN making post-privatisation alliances – indeed it is already a party to several international consortia. But they will not be integral to the privatisation.

The EC's resolve to liberalise the 'voice' market by 1998, means that competition is around the corner

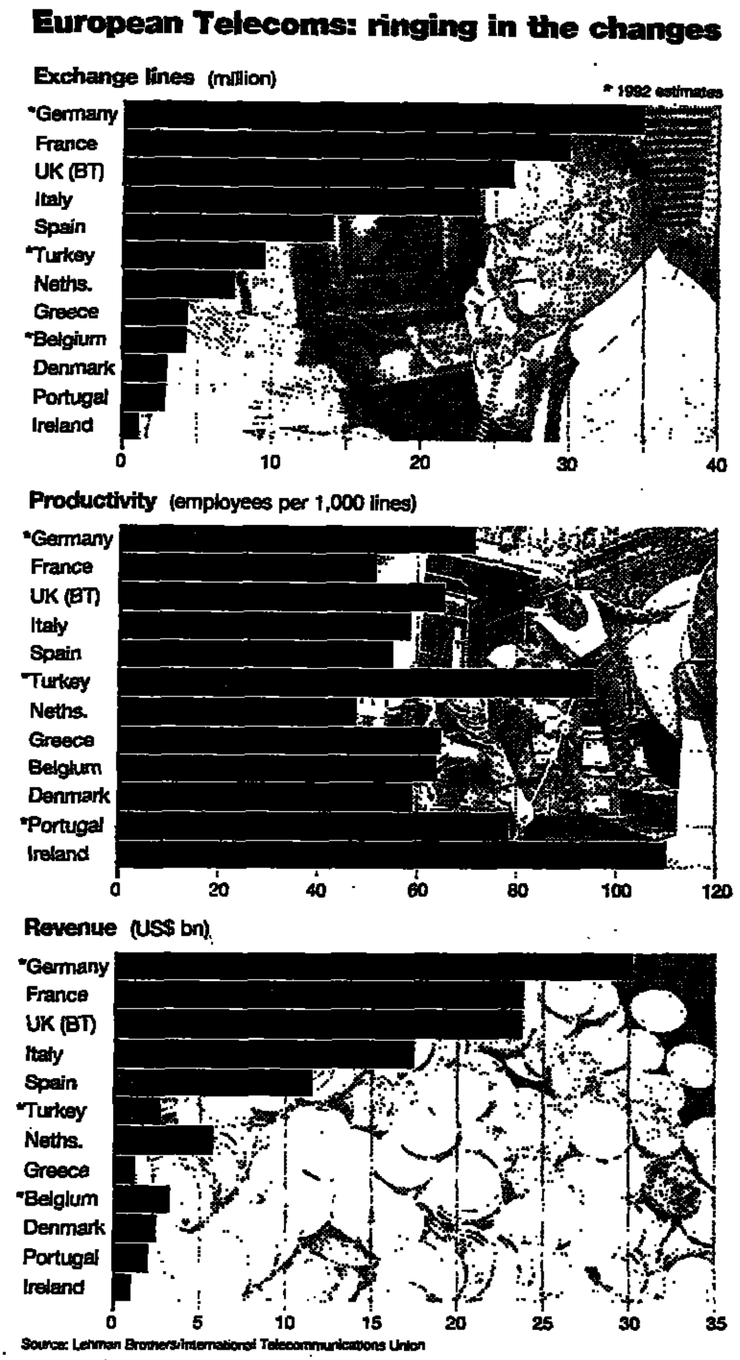
By contrast, smaller PTOs are anxious to use privatisation as a way of acquiring a strategic partner in the form of a big overseas operator taking an equity stake. Here, the Greek model is widely cited – although it is likely to be disowned by Greece itself.

Under it, 35 per cent of OTE, the Greek state operator, was to have been sold to a strategic partner with management control, in return for a guaranteed $7bn in investment over the next decade. Another 14 per cent of the stock would have been floated on the Athens stock exchange, leaving the government with a 51 per cent stake but little operational say.

However, the decision to sell is only the beginning, not the end, of the privatisation process. Key issues remain: valuation, regulation, the attractiveness of the PTOs to would-be investors and, perhaps most critical of all, the speed and terms of liberalisation.

Two things appear certain. Technological advance, plus the European Community's resolve to liberalise the "voice" market by 1998 (with five extra years' grace for Spain, Ireland, Greece and Portugal), means that competition is imminent in every country. But the regulatory structure in each country will have a large bearing on the speed it advances and the strength of rival operators – and thus on the valuation of PTOs at privatisation.

European Telecoms: ringing in the changes



Source: Lehman Brothers/International Telecommunications Union

Providing rough-and-ready valuations of PTOs is easy enough, taking multiples of earnings of comparable companies, subtracting debt and allowing for local market conditions. However, as Mr Laurence Heyworth, telecoms analyst at Robert Fleming Securities, puts it: "A PTO is worth largely what the government and management says it's worth." For the valuation at sale will depend heavily on government decisions on regulation, competition, the freedom of managers to hire and fire and any sale of divisions of the PTO itself.

Thereafter, the financial motivation of management will be critical. Privatised PTOs likely to retain the character of a utility, such as Tele Danmark, will be "safe bet" investments akin to bond substitutes. By contrast, companies intent on maximising shareholder value will lead a more chequered life, floating off ancillary businesses (like cellular and directory services), giving stock options to their senior executives, and engaging in aggressive moves abroad. Mr Heyworth points to Italy as a leader in the second camp.

On competition, the essential choice for governments is whether to promote it at privatisation, or to let it arise on its own as the EC's 1998 deadline is passed. The latter is the more popular option, although the Netherlands may embrace an interim duopoly, as occurred at privatisation in the UK. Its government is inviting the country's utilities, railways and cable operators to join forces to provide a second national telecoms network.

But even for PTOs not facing immediate competition, there is no easy ride through to 1998. Operators are finding ever more sophisticated means of eroding national monopolies. Cellular telephony, in particular, is opening a new avenue of competition across the continent. The first generation of cellular mobile networks were mostly low-capacity and operated as PTO monopolies. But the generation of digital services now coming on stream are high-capacity networks and, in most cases, the PTOs face competition from networks operated by one or more consortia of private, often foreign, companies.

PTOs are likely to be attractive buys. On almost every stock exchange on which they are listed, telecoms companies have been outperforming the average. Even with competition and regulation, their earnings capacity remains impressive. "We are getting plenty of 'cold' inquiries: indications of interest in forthcoming sales are extremely strong, and there doesn't seem to be much concern about saturation," says Mr David Wheeler, director of the telecoms group at Lehman Brothers, the merchant bank.

That may come as a relief to those at the end of the queue. But the fight among governments and PTOs for the front seats will be intense, notwithstanding those such as Mr Papandreou.

This is the first in a series on the privatisation of Europe's state telecommunications operators

OBSERVER

Holmes plays hard to get

Rather odd that Sir Peter Holmes, recently retired as chairman of Shell Transport and Trading, should have accepted as his first non-executive directorship in the UK a position on the board of headhunters Norman Broadbent.

It would seem that Miles Broadbent had been sounding Holmes out for one juicy job or another, only to discover that his lunch companion was more amenable to joining his own stable.

Shortly off for a spot of fishing in Montana before indulging his passion for the outdoors in other obscure corners of the world, Holmes says he is "demobbed and loving the freedom". So far he has also agreed to go on the board of a Los Angeles global investment fund, but that is it.

The man who has been tipped as anything from the next chairman of British Gas to president of the CBI concedes he "might think again" at some point. Only institutions that are "leaders in their field" need apply.

A Shell recruiter himself in the early 1960s, he is convinced headhunters perform a useful function – though Shell, of course, was far too proud of its in-house man management abilities to look for outside help in filling anything but the most specialised of jobs.

Miles Broadbent, who headhunted Colin Marshall (now Sir Colin) to British Airways, already has Lord King aboard, as well as BICC ex-chairman Sir William Barlow. The latter has become so fired up with the business that he turns up regularly at internal management meetings.

But those who hold headhunters in the affection normally reserved for traffic wardens and estate agents are still inclined to question why Holmes chose to christen his UK portfolio with a job that looks to be rather a whimsical hobby horse.

Fledgling Fleming

■ Rupert Fleming, just down from the University of the West of England (Bristol Poly to you and me), won't be short of company in his new job as a trainee securities analyst at merchant bankers Robert Fleming. For he is the eighth member of the clan, which holds around 40 per cent of the shares, currently working for the bank.

Chairman Robin Fleming is accompanied by two relatives on the holding board; Rupert's father, Val, who comes from the investment management side, and Adam, founder of the Johannesburg office and a cousin of the chairman. Adam's brother, Roddy, works in capital markets, while the chairman's sons, Rory and Philip, are to be found in investment trust marketing and investment management, respectively. Last but not least, Catriona Fleming brokes Asian equities for that big happy family.

'Large fries and a Pro-Yeltsinburger, please.'

Whip hand

■ Nicknamed the Prince of Darkness during his eight-year stint in the government whips' office, Tristan Garel-Jones ought to get on well with Sir Robert "Black Bob" Scholey whom he joins as one of a clutch of advisers to Union Bank of Switzerland's London operation.

The global UBS environment ought to suit Euro-crazy Garel-Jones, the fluent Spanish-speaking ex-foreign office minister who turned down two or three other City offers to link hands with the Swiss.

The services of the erstwhile arch-plotter of Westminster would, of course, have come in handy last year when UBS was rife with intrigue after the sacking of the former head of UK equity research, Terry Smith.

When not out on the road selling UBS's services, might Garel-Jones now employ his legendary powers scheming to install Rudi Mueller, the tough Swiss head of UBS's London operation, as the next chairman of the London Stock Exchange when Sir Andrew Hugh Smith steps down?

Crowding out

■ Observer has already raised an eyebrow at the apparent ease with which Nigeria secured an invitation to the biennial gathering of Commonwealth members in a year when the African state has ignored the outcome of a presidential election and kept the soldiers in power. Now Chief Ernest Shonekan, the former businessman who fronts for the military as head of state, seems to be pushing his luck still further.

Commonwealth officials are appalled to learn that the chief plans to surround himself at next week's conference in Cyprus with an entourage numbering no less than 60. This is four or five times as many people as John Major will be taking; such a clutch would of course also vastly outnumber the Queen's party, an organiser points out.

So it is being gently suggested that Shonekan might make do with fewer. After all, a country seeking backing for its efforts to reschedule $34bn in external debt should perhaps be seen to be cutting back a bit on outings for the boys.

Herd instinct

■ Proof, if such were needed, that anything connected with emerging markets sets the financial world alight these days. Aberdeen Trust chief executive Martin Gilbert was returning to his office last week when he was accosted by a charming young woman waving a cheque for £2,000.

"Are you anything to do with the Emerging Economies Investment Trust?" she wanted to know, seemingly fearful she had missed the subscription deadline. Gilbert, who sits on the board of the newly-formed trust, says the offer period was in fact just minutes old. It must be all downhill from here, Martin.

Deep

■ What do you call 500 lawyers at the bottom of the sea? A good start.

FINANCIAL TIMES
Monday October 11 1993

Trade treaty could be lost 'for generations'

Salinas warns US on deadline to agree Nafta

By Stephen Fidler and Damian Fraser in Mexico City

PRESIDENT Carlos Salinas of Mexico, seeking to end more than a year of uncertainty about ratification of the Nafta free trade agreement with the US and Canada, has said that if the treaty is not secured by the beginning of next year it will be lost.

The agreement – along with related accords on labour and the environment – is awaiting ratification in the three countries but is facing an uphill struggle in the US Congress.

In an interview with the Financial Times, Mr Salinas said failure to achieve passage of the agreement by January 1 would mean that "its chances would be out for several generations".

It was "self-deception" to believe another agreement could be negotiated soon if the current one was rejected.

In a statement last week, the president said bluntly: "Neither the reopening of the negotiation of the treaty nor the postponement of its coming into force are real options at this stage."

The statement suggested that rejection of the treaty would reverse recent improvements in relations with the US, pointedly noting that a few years ago "anti-US rhetoric was an easy route to popularity".

Asked for clarification, senior Mexican officials said the government *would not insist categorically* on the deadline if the treaty were put to the vote this year in the US House of Representatives *but* not voted on by the Senate until the new year. Support for the agreement is more solid in the Senate than in the House, and a House vote to ratify the treaty would almost certainly ensure its passage.

That should mean that most of the uncertainty surrounding ratification would be settled by early December, they said. Mr Salinas's six-year term of office ends next year and presidential and congressional elections will be held in August. The president and the governing Institutional Revolutionary party want the issue out of the way before campaigning begins early next year. The party's presidential candidate, traditionally chosen by the sitting president, has yet to be selected.

While Mr Salinas stressed the "historic" importance of the trade pact to Mexican-US relations, he said that Nafta was "not the only thing" going on in Mexico, and that the process of economic reform would continue without it.

Echoing the view of senior Mexican officials who believe the tide in the US Congress is turning, he said he was "optimistic" that it would be approved.

Mr Salinas said his government would introduce a new liberal foreign investment law later this year.

Were Nafta to be rejected, say senior officials, the Salinas government would try to reach sector-by-sector trade agreements with the US, and other trade accords with Latin American countries, Europe and Japan.

Yeltsin takes control of regions

By John Lloyd in Moscow

RUSSIAN president Boris Yeltsin subordinated all councils to regional administrators at the weekend in a further effort to *clear the political* landscape of institutions and movements presenting a challenge to his presidential rule.

He also decreed that a special commission would work out a sweeping reform of local government by this Friday. The head of the commission and its members have not yet been announced.

At the same time, he extended the state of emergency and the Moscow curfew until next Sunday. The curfew will now begin an hour later, at midnight, but will continue to run until 5am. No demonstrations had been reported in Moscow by Sunday evening, after a statement on Saturday by Gen Alexander Kulikov, Moscow City commandant, saying that any attempts to organise demonstrations would be rigorously suppressed.

The fate of the thousands of councils, ranging from the parliaments of territories larger *than many countries* to small town councils, remains unclear. It seems likely they will be swept away, to be re-elected at *the same time as, or soon after,* the new federal parliament.

Leaders of the democratic movements are in intensive negotiations with each other ahead of the Federal Assembly elections, due in December.

The main movement, Russia's Choice, led by Mr Yegor Gaidar, first deputy prime minister, is trying to construct "dream tickets" of prominent radicals to stand on allied lists.

Mr Sergei Yuzhenkov, a close ally of Mr Gaidar's and deputy *head of the federal information* service, said at the weekend he was holding talks with Mr Grigory Yavlinsky, the economist and presidential candidate, and Mr Sergei Shakhrai, the deputy prime minister, with the aim of persuading them to join Mr Gaidar as leaders of Russia's Choice for the election campaign.

Mr Yuzhenkov said: "Mr Yavlinsky knows the centre [on which he had previously counted for support] is now too compromised after its support of the White House and will not provide a base for him."

Mr Yuzhenkov, the main strategist for the Russia's Choice bloc, *said he hoped other* pro-democratic blocs would put up similar leading candidates to head their lists in the hope of producing a parliament with a pro-reform majority through election of several such blocs.

One list would be provided by the Democratic Russia movement, which has yet to choose its leaders.

Icy handshake, Page 3
Can Yeltsin be a reformer? Page 4
Nato growing pains, Back page, second section

European airlines agree size of stakes in proposed pact

By Paul Betts, Aerospace Correspondent

THE FOUR European national airlines planning to create an alliance to challenge British Airways and Lufthansa have agreed the controversial question of how to value their stakes in the partnership.

The negotiations, which could eventually lead to a full merger between Swissair, Scandinavian Airlines System, KLM Royal Dutch Airlines and Austrian Airlines will come to a head at a *meeting in Zurich tomorrow.*

Agreement on the complex valuation issue gives an important boost to the negotiations, confirming the four airlines' commitment to the pact.

Under the proposed Alcazar alliance, Swissair, SAS and KLM would each own 30 per cent of the new centralised management company and Austrian 10 per cent.

The airlines agreed the split could not be achieved without adjustments to reflect the relative worth of each airline.

The Swiss argued that their carrier's valuation should be higher than 30 per cent because it was not as highly geared as SAS or KLM. But SAS and KLM argued that Swissair faced a less promising long-term future because it had been losing market share in Europe, was not a European Community carrier and had higher labour costs.

The partners *are thought to* have agreed that Swissair's share of the joint company should be 35-36 per cent, about $250m-$350m more than the other airlines. To close the gap KLM and SAS would increase their worth by increasing their equity, while Swissair would reduce its valuation by paying a special dividend to shareholders.

The four airlines are still arguing over the form the equalisation mechanism will take. Both SAS and KLM would prefer Swissair to give its shareholders a loan note, while the Swissair wants to pay a cash dividend.

Austrian Airlines is still wavering between the Alcazar partnership or co-operating with Lufthansa. The airline's management is understood to favour Alcazar but its majority shareholder, the Austrian state, is undecided and appears to be leaning towards the German carrier.

However the three larger partners would proceed even if Austrian pulled out, sources close to *the negotiations said.*

Even if agreement is reached on Tuesday, the four airlines still have difficult issues to resolve, including the structure of the new centralised management company, the location of its headquarters and the selection of a US airline partner.

The choice of the headquarters appears to have been narrowed down to either Amsterdam or Copenhagen. But the choice of a US partner could prove particularly difficult since Swissair has links with Delta Air Lines, KLM with Northwest Airlines and SAS with Continental Airlines.

Early return to old ERM vetoed

Continued from Page 1

finance minister, who chaired the meeting, said he was still convinced of the need to reinforce the ERM. "But we also think there are some preconditions to be met before we talk of a return to narrow margins, and one of those is greater convergence."

In an effort to shore up the credibility of the Emu project, ministers expressed support for the introduction by the end of the year of the national legislation for Emu. They insisted on their commitment to exchange rate stability.

The legislation would allow Emu "stage two" to begin on time on January 1 1994; and it would create the European Monetary Institute, the precursor of the European central bank.

The legislation would ban governments from borrowing indirectly from central banks; bar privileged access by governments to financial institutions; encourage governments to rein in excessive budget deficits and debt; and set out the various contributions of central banks to the EMI.

THE LEX COLUMN

A sound constitution

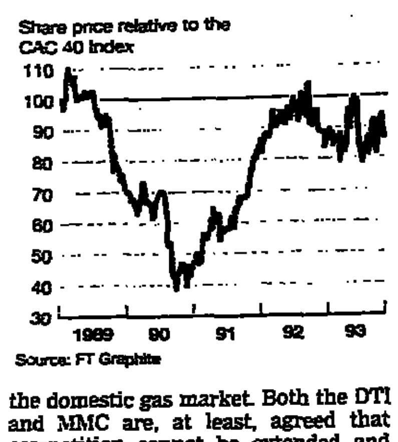
At least France will not be able to blame Anglo-Saxon speculators if Germany's constitutional court comes out against the Maastricht treaty tomorrow. The ruling is one of those awkward instances where financial markets have to rely on guesswork to predict what will happen. A decision that Maastricht is unconstitutional or that ratification requires a referendum would deal a body blow to any lingering hopes of European monetary union. That could cause a fresh surge of demand for D-Marks with, at the other extreme, a sharp sell-off in the Ecu bond market. Insofar as any outcome can be discounted in advance, though, the expectation is the court will give the treaty qualified approval.

The trick will be to decide how serious any qualifications might be. Anything that necessitates renegotiation of the treaty would be as awkward as an outright No. Some *qualifications* could turn out less innocuous than they sound. For example, the court could limit the scope for changing the economic convergence criteria, even though the European Commission might deem change necessary to maintain the progress towards monetary union.

Since the ERM was forced to scrap its narrow bands at the start of August, few people have much faith in monetary union arriving on target anyway. That may limit the market's response, especially since the D-Mark has already advanced on Friday's disappointing US unemployment figures. But a further setback for monetary union would see those gains consolidated. *The question then will be* whether the Bundesbank will respond by accelerating its interest rate cuts.

Rhône-Poulenc

Share price relative to the CAC 40 Index



Source: FT Graphite

British Gas

The Monopolies and Mergers Commission produced a cogent and coherent view of the future of the gas industry when it proposed splitting up British Gas. Yet it must be questionable whether the academic purity of the MMC's view will survive the political realities of the government's needs. The main thrust of the MMC's *view – that sustainable competition in* the domestic gas market required British Gas to be broken up – runs counter to the government's thoughts. *So far, the Department of Trade and* Industry has encouraged competition by the simple expedient of allowing entrants in. British Gas has argued, however, that safety considerations prevent the rapid further opening of the domestic gas market. Both the DTI and MMC are, at least, agreed that competition cannot be extended and British Gas broken up at the same *time. It may be tempting for the DTI* to avoid break-up if it is keen on more competition.

Yet that course is equally fraught with *difficulty. Rapid deregulation* would lead to differential pricing between users. Then there is the question of who should pay for the extra overheads and meters needed in a competitive market. The MMC recommended that customers should bear the costs, since they were the ultimate beneficiaries. Both would be politically embarrassing for the government at the time when VAT is being applied to fuel. The government might suggest introducing domestic competition conveniently after the next election. But that would leave British Gas still *bound hip and thigh to* its beloved regulator.

Newspaper groups

The UK finance minister has some hard political choices to make if he intends to raise extra revenue in his November Budget. But one of the softest options – judging by the cheers at the Conservative party conference, at least – would be to slap VAT on newspapers. Recent price cuts by the Sun and The Times may be viewed Mr Clarke as an open invitation for such *a move. Given the political flak that* would fly however much he taxed newspapers, he may choose to apply VAT at the full rate to raise a decent amount of revenue.

That would undoubtedly come as a savage blow to the newspaper industry. Publishers would face the painful dilemma of deciding whether to pass on the increase and lose circulation or swallow the rise at the expense of margin. Against the background of sluggish advertising and rising newsprint costs, many newspaper groups would face a particularly rough time. National newspaper titles with strong franchises would be comparatively well placed to endure the pain. But the *move would* have a long-term impact, depressing the prospects for any subsequent price rises.

Local newspapers and magazines *may prove far less robust, however.* With somewhat spurious precision, the Newspaper Society suggests 245 regional newspapers would close. The Periodical Publishers Association estimates that 25 per cent of magazine titles would shut. But, theoretically, those that survived the shake-out could prosper.

Rhône-Poulenc

Of all the candidates in France's privatisation programme, Rhône-Poulenc, which is slated to follow BNP, must crave the freedom of the private sector. The company's transformation into a pharmaceuticals giant would have been difficult to achieve without government support. Yet access to equity has become a serious headache. The FFr14bn preference shares and other quasi-equity instruments which prop up the company's balance sheet could usefully be replaced with real equity. That will doubtless be near the top of the company's agenda once privatisation is out of the way.

The weight of debt cuts both ways. Ordinary shareholders are heavily geared to any cyclical recovery in profits, but interest charges and the cost of servicing preference capital will take a large slice out of profits *until the upturn comes.* The worry is that the downturn consistently caught Rhône-Poulenc unawares. At the time of January's partial privatisation offer – which bought the government's direct holding down to 43 per cent – the company was anticipating profits growth this year. The 11 per cent decline in first-half net profits would have been worse but for a change in depreciation policy.

Cyclical recovery in chemicals is the big prize, but it is still some way off. There is also the touchy question of healthcare reform in France, which accounts for a quarter of the company's pharmaceuticals sales. While the issue is unlikely to be addressed until after privatisation, it seems too much to hope that reform will leave Rhône-Poulenc untouched.

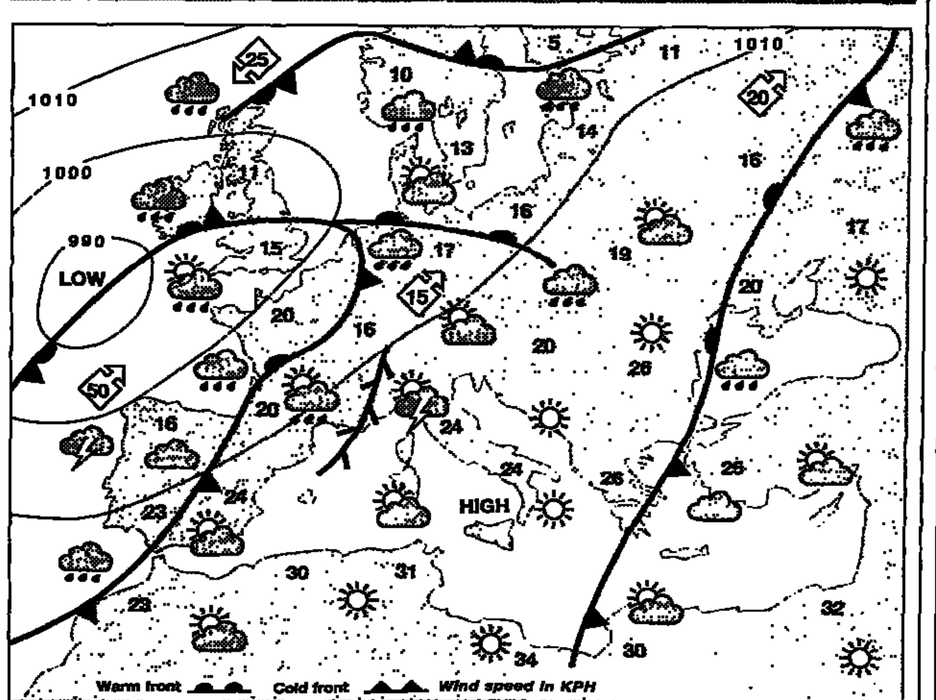
FT WORLD WEATHER

Europe today

An active front will remain stationary from central Scandinavia towards the northern CIS region, causing rain clouds over the central parts of Scandinavia. North of this boundary it will be cold with local snow. In western Europe it will remain unsettled. A frontal zone will bring cloudy and rainy conditions from the mid-UK to the Netherlands and western Germany. Portugal and Spain will be cloudy with rain and thunder showers. In the southern Alps there will be heavy showers with a risk of local flooding. Clouds will cover western Turkey, but in other *parts of southern Europe it will stay sunny and* dry.

Five-day forecast

Changes in the general pattern over western Europe will be unnoticed. A depression near the British Isles will leave unsettled conditions over western Europe. Most rain will fall in central *regions of the UK. Cold air with local* outbreaks of snow will continue over northern Scandinavia, although most of the cold will be forced north out of Finland later this week. South-eastern Europe will stay sunny and dry.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	36
Accra	cloudy	31
Algiers	fair	30
Amsterdam	shower	17
Athens	fair	28
B. Aires	fair	27
B.ham	shower	14
Bangkok	thund	32
Barcelona	fair	24
Beijing	cloudy	22
Belfast	drzzl	12
Belgrade	fair	24
Berlin	drzzl	18
Bermuda	cloudy	29
Bogota	thund	20
Bombay	fair	34
Brussels	shower	19
Budapest	sun	19
C.hagen	cloudy	13
Cairo	sun	32
Cape Town	cloudy	16
Caracas	cloudy	33
Cardiff	rain	14
Chicago	fair	15
Cologne	cloudy	19
D' Salaam	fair	29
Dakar	sun	31
Dallas	shower	26
Delhi	sun	36
Dubai	sun	36
Dublin	cloudy	12
Dubrovnik	sun	23
Edinburgh	rain	12
Faro	thund	22
Frankfurt	drzzl	20
Geneva	shower	20
Gibraltar	thund	23
Glasgow	rain	12
Hamburg	rain	14
Helsinki	drzzl	7
Hong Kong	fair	29
Honolulu	sun	32
Istanbul	cloudy	24
Jersey	shower	14
Karachi	fair	34
Kuwait	fair	36
L. Angeles	fair	22
Las Palmas	fair	26
Lima	cloudy	20
Lisbon	thund	20
London	shower	16
Lux.bourg	drzzl	17
Lyon	shower	23
Madeira	fair	24
Madrid	shower	19
Majorca	fair	26
Malta	sun	28
Manchester	rain	14
Manila	drzzl	31
Melbourne	fair	15
Mexico City	fair	23
Miami	sun	30
Milan	shower	18
Montreal	fair	7
Moscow	fair	13
Munich	fair	23
Nairobi	fair	27
Naples	sun	25
Nassau	fair	31
New York	sun	13
Nice	drzzl	20
Nicosia	sun	31
Oslo	rain	9
Paris	rain	20
Perth	fair	24
Prague	fair	19
Rangoon	cloudy	34
Reykjavik	fair	6
Rio	fair	25
Riyadh	fair	34
Rome	fair	25
S. Frsco	cloudy	20
Seoul	fair	23
Singapore	cloudy	31
Stockholm	rain	7
Strasbourg	drzzl	23
Sydney	fair	19
Tangier	thund	23
Tel Aviv	sun	30
Tokyo	cloudy	20
Toronto	fair	7
Tunis	sun	31
Vancouver	shower	16
Venice	shower	20
Vienna	fair	20
Warsaw	cloudy	19
Washington	fair	14
Wellington	shower	12
Winnipeg	sleet	8
Zurich	cloudy	21

FINANCIAL TIMES
COMPANIES & MARKETS
Monday October 11 1993

INSIDE

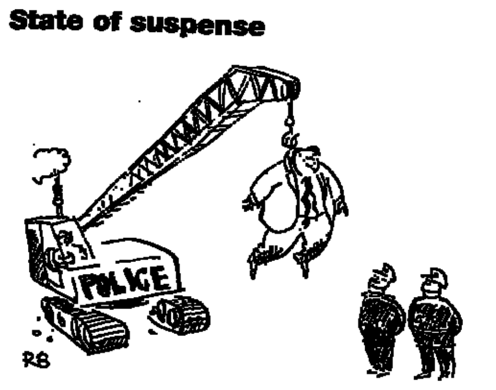
US and Canada buy Chile copper mine

A US-Canadian consortium of Cyprus Minerals Company and Lac Minerals has agreed to pay up to $555m for a 51 per cent stake in the El Abra copper mine, Chile's largest-ever foreign joint venture. Page 18

Trafalgar House loses top man

Mr Allan Gormly will next year step down as chief executive of Trafalgar House. He is expected to take a more prominent role at Royal Insurance, where he is a non-executive deputy chairman. Page 16

State of suspense



For the past few weeks, Japanese television viewers have watched the almost nightly drama of construction company executives being hauled from their homes and escorted to the Tokyo Detention Centre for questioning about their role in a political scandal. Page 18

Rally for US bonds

The US monthly employment figures sparked a strong rally in Treasury prices on Friday. Page 20

FT-SE revised classifications

A revised industry classification will apply to the FT-Actuaries All-Share Index and the other FT-SE UK indices from next January. A full listing of the current companies in the All-Share Index in their new categories appears on Page 18

Prospective p/e ratio

The latest prospective p/e ratio for the "500" index for calendar 1993 is 15.8, according to IBES, the consensus estimates service (Last week: 15.8). This compares with an IBES estimated p/e for the "500" of 20.5 (20.5) for calendar 1992. The official FT calculation of the historic p/e, based on the latest reported earnings, is 20.12 (19.71).

Hoechst bids for generic drug stake

By Christopher Parkes in Frankfurt

HOECHST, the troubled German chemicals group, is bidding for its first stake in the North American generic drugs market with a $550m offer for 51 per cent of the Copley group of the US.

Copley, which last year earned $12.3m after taxes on sales of $52m, is an important opening for the bidder's Hoechst Roussel Pharmaceutical Industries subsidiary, which last year reported sales of $600m in the US and claimed a 1.1 per cent market share. The share of generics – out-of-patent products – in the US prescription drugs market is expected to grow 14 per cent a year until the end of the century, according to Hoechst.

It based its forecast on planned US health reforms, aimed at improving treatment for 36m Americans not covered by health insurance, partly by increased use of cheaper generic drugs.

The move is also a further step in restructuring at Hoechst, which suffered a 31 per cent decline in profits in the first half of this year. At the end of May the group said it was to sell a majority stake in its viscose and acrylic fibres operations to Courtaulds of the UK.

In July it announced capacity cuts in PVC production following the merger of its interests with those of Wacker. Shortly afterwards it agreed effectively to take over the Schering group's plant protection operations.

If the deal is concluded, Copley will take over the manufacture and distribution of Hoechst Roussel products as their patents expire, the German group said. Hoechst, which has no generics business in Germany, said the first drug affected would be a treatment for diabetes.

Copley's main specialities include dermatology products, psychotherapeutic drugs and treatments for rheumatism. Hoechst's top-sellers include products for circulatory ailments, antibiotics and its Daonil diabetes drug.

The deal has been negotiated by the German company's 100 per cent-owned local subsidiary, Hoechst Celanese, and will be financed entirely from within the US, the group said.

The pharmaceuticals business last year accounted for almost DM10bn ($6bn) of Hoechst's DM46bn turnover, and was the only sector to show an increase in operating earnings.

Record pay-outs have led to pressure to limit accountants' liability, writes **Richard Lapper**

Auditors turn cold as legal claims hot up

The rising tide of multi-million pound claims against auditors is "enough to turn the blood cold", according to the senior partner of one large British firm.

Last week's $110m out of court settlement in Dublin ended what could have become a marathon legal action between Ernst & Whinney, the accountants, and Allied Irish Banks. But the size of the pay-out is an uncomfortable reminder for accountants of the scale of the risks to which their profession is exposed.

Increasingly, accountants are facing a steady rise in legal exposures, as creditors and investors in troubled and insolvent companies seek to recover losses.

The Dublin case arose as a result of the failure of Insurance Corporation of Ireland, a small general insurance company acquired by Allied in 1983. Ernst & Whinney, now part of Ernst & Young, audited Insurance Corp's books between 1978 and 1983, a time when it was growing quickly. However, Insurance Corp set aside insufficient cash to meet future claims and in 1985 collapsed with losses of more than I£80m ($115m). Allied, together with the company's administrators, Icarom, launched legal action, claiming $550m, alleging that E&Y had not looked hard enough at Insurance Corp's operations. With accumulated interest the size of the claim could have exceeded I£1bn. E&Y did not admit liability and took comfort in the fact that the settlement was equal to only about 8 per cent of this.

For E&Y it follows hard on the heels of some big pay-outs in the US. Last November's $400m settlement with US federal savings and loan industry regulators, was the largest ever agreed by an accountancy firm. Ernst & Whinney is also named – along with Price Waterhouse – on a $8bn claim, filed by the liquidators of the Bank of Credit and Commerce International (BCCI).

Mr Lawrence A. Weinbach, managing partner-chief executive of the Arthur Andersen Worldwide Organisation, estimates that worldwide the industry faces $30bn of claims.

This puts pressure on the arrangements through which the "big six" insure themselves. The largest accountancy firms rely on both the conventional professional indemnity insurance market and the industry's own mutual insurers – Bermuda-based PALE and PADUA.

Cover provided from these sources is understood to extend to more than $100m. But it is limited. And beyond a certain level the partners themselves – as the owners of the firms – are individually liable up to the total value of their assets.

Premiums have risen steeply – by at least 300 per cent since 1985 – and insurers have increased the amount of each claim that they pay from their own resources. In 1992 the costs of fighting legal action for the "big six" in the US amounted to $598m – or 11 per cent of their revenues. Insurance recoveries provided an additional $185m in resolving claims, says Mr Weinbach.

Many smaller and medium-sized firms are also coming under fire. Mr Charles Cox, of CT Bowring, the insurance broker which provides a scheme for the smaller UK groups, says that each year one in five accountants notify their insurers about circumstances which might give rise to a claim. "There has been a steady increase in notifications and a steady deterioration in claims."

Roughly half of all claims dealt with by Bowring are linked to tax disputes, but the number of audit claims now amounts to one in four of all claims.

In the US, Mr Weinbach says the fear of legal action and potential financial ruin is leading to fewer accountants entering the profession and many younger accountants are refusing the offer of partnership. Over-exposure to litigation was a big factor in the 1990 bankruptcy of Laventhol Horwath, then the seventh-largest accounting firm in the US.

Europe has yet to reach this pitch. Even so Mr Richard Murray, chief executive of Minet Global Professional Services, says claims here are rising at a faster rate than in any other part of the world. With many of the cases in the UK, the pressure for reforms to limit liabilities seems certain to grow.

Accountants are seeking changes to the Companies Act which now bans auditors making contracts where liability with clients is limited.

Mr John Magill, who is responsible for risk management at Touche Ross, said: "There is concern that we can just be blown out of the water by some of these settlements."

World's biggest awards against accountants and auditors 1992-93

Firm against which award made	Plaintiff	Accountant's client	Amount of award or settlement	Country
1 Ernst & Young	Federal Deposit Insurance Corp	various savings & loans banks of Tennessee and others	$400m	US
2 Ernst & Young	Allied Irish Banks	Insurance Corporation of Ireland	$111m	Ireland
3 Coopers & Lybrand	Bankruptcy trustees	Miniscribe	est $95m*	US
4 KPMG and Others	Investors	Wedtech	$77.5m	US
5 Ernst & Young	Investors	American Continental Corp	$63m	US
6 Coopers & Lybrand	Bondholders	Miniscribe	$45-$50m*	US
7 Peat Marwick & Others	Shareholders/ creditors	Crazy Eddie Inc	$42m	US
8 Arthur Andersen	Investors	Lincoln Savings & Loan	$22m-$30m	US

* Part of $140-$145m settlements by Coopers & Lybrand in Miniscribe case
Source: Lafferty Publications

UK utilities aim for expansion overseas

By Michael Smith, Robert Corzine, Bronwen Maddox and Alan Cane

THE UK'S 18 privatised electricity companies are likely to invest at least £1.5bn ($2.3bn) abroad in the next five years, as part of expansion plans to escape constraints on their profitability imposed by their regulators.

Although little more than £200m has been committed so far by the electricity companies they have plans for projects in the US, Portugal and Germany.

The electricity, water and gas companies are following the lead of BT, the telecommunications group which was privatised in 1984. Its international plans, which have met with mixed success, culminated in June with its £2.88bn purchase of a 20 per cent stake in MCI, the US long-distance carrier. However the international push by the former nationalised corporations may raise doubts about their ability to manage overseas operations and prompt calls for tighter regulation of their international activities.

Ofgas, the gas regulator, wants British Gas's international operations included in its remit. Ofwat the water industry regulator, commenting on the water companies' expansion abroad, said: "We have been doing a lot of work to prevent cross-subsidisation – money from customers' bills being used to finance this expansion."

The electricity companies' move is being led by National Power which expects to invest up to £1bn overseas by the year 2000 in projects valued up to £15bn. It recently spent $160m on Tevco, which owns power plants in the south-east of the US. It expects between 10 and 20 per cent of its earnings could be generated abroad by the year 2000.

The National Grid, which operates the transmission system in England and Wales, plans to invest up to £370m overseas in the next five years. It has already spent £23m as one of a consortium which has taken over the Argentinian transmission system.

Midland Electricity has indicated to the City that it is prepared to commit up to £200m in overseas investments.

International expansion is a large component in British Gas's plans, in the light of commercial and legal challenges to its dominance of the UK market. Since privatisation in 1986 British Gas has spent more than £1.1bn on foreign exploration and production assets.

Two examples of pomp and circumstance

Economics Notebook

By Peter Norman

Two countries, two central banks, and each with new men at the top.

Ten days ago, Mr Hans Tietmeyer was installed as Bundesbank president in the nearest thing to a coronation that the Federal Republic has to offer. The handover of power at the Bundesbank was marked by a ceremony attended by 800 guests from European central banks and German government, politics and business. Among the seven speeches (punctuated by passages from a Schumann piano quintet and Beethoven's trio for clarinet, cello and piano) was one by Chancellor Helmut Kohl declaring his support for Bundesbank independence.

Three months earlier, on July 1, Mr Eddie George took over as the new governor of the Bank of England and Mr Rupert Pennant Rea, the former editor of the Economist, as his deputy. Mr George travelled into Threadneedle Street from his Dulwich home as on any normal working day. Mr Pennant-Rea moved into a new office. Otherwise, there was no change in the Bank's long-established routine.

At first sight, the Bank of England's approach to the change in its top management was reassuringly low key. It seemed to express the very British idea of "business as usual". But the pomp surrounding the elevation of Mr Tietmeyer to the presidency of the Bundesbank was more than Teutonic self indulgence.

The gathering in Frankfurt's elegant *Palmengarten* marked out Mr Tietmeyer as one of Europe's most powerful men. It also was an act of homage by Germany's political class to the Bundesbank as an institution, and a reminder that the person who happened to be at its top was merely a steward.

In a world of rapid economic, social and political change, there is a growing interest among policymakers in building and nurturing institutions to support economic policy goals.

The absence of strong economic policymaking institutions is keenly felt in Russia. The existence of a central bank that saw control of inflation and monetary conditions as its vocation would have made a huge difference to the process of transformation from a command to a market economy.

Israeli policymakers are conscious that Gaza and the region around Jericho will need more than money if they are to have effective self government. In a recent conversation, Mr Jacob Frenkel, the governor of the Central Bank of Israel, underlined the vital need for the Palestinians to set up effective institutions for controlling public spending and managing taxation in the areas that they will govern. Otherwise, the territories could become dependent on outside aid.

In Britain, institutions such as the Bank of England, the Stock Exchange and the Treasury have seen their influence slip over the past decade in the face of the growing power of financial markets. Perhaps because the British establishment has generally made a mess of running the economy over the past 40 years, the pendulum has yet to swing back in favour of building these institutions up again.

But there is a case for having a thorough look at the current state and objectives of the Bank of England.

The Bank's present position is the result of a typically messy British compromise. It has, since Britain's exit from the European exchange rate mechanism, been given more explicit responsibility for the control of inflation. Although both Messrs George and Pennant-Rea would like more autonomy, it is nowhere near having the independence that would make it responsible for price stability.

When Mr George was named as governor in January he was given a mandate "to support the government in its determination to bring about a lasting reduction in the rate of inflation".

Shortly before, the government had set as a target a 1 to 4 per cent range for the underlying rate of inflation (retail price inflation minus mortgage interest payments) during the life of this parliament.

Since July's change at the top, the Bank seems determined to create as much freedom of manoeuvre as it can.

It seems to have won a battle to prevent the Treasury interfering with the writing of its quarterly inflation report. This document, introduced in February, is intended to provide an independent signal if inflation is threatening to burst through its target ceiling.

Last week, Mr Pennant-Rea unilaterally redefined the government's inflation target to 1 to 2.5 per cent by 1996 or 1997 in place of the previous vague statement by Mr Norman Lamont when chancellor that "by the end of the Parliament we need to be in the lower part of the (1-4 per cent) range".

The present chancellor, Mr Kenneth Clarke, seems happy to let the Bank flex its muscles. In an interview with Crossbow, the magazine of the Tory Bow Group last week, he said the Treasury would no longer have a hand in the Bank's inflation report. He also promised not to tamper with monetary policy for political ends. "It is important that monetary policy is taken objectively, openly and is certainly not buffeted about by short-term political considerations to assist the party in power," he said.

But although the chancellor said he had a "fairly open mind" on the subject of Bank independence, there was nothing to suggest that he wanted to give up ultimate responsibility for the Bank and monetary policy. Mr Clarke believes strongly in the Westminster parliamentary system. "I think people would get fed up with me telling parliament that the most important features of economic policy were practically beyond my control," he told Crossbow.

But Mr Clarke's word will not be the last on the issue. The House of Commons Treasury and Civil Service Committee has been holding hearings on the Bank's future. Its report, expected either late this year or early in 1994, could boost pressure for greater Bank independence.

The Bank itself will be celebrating its tercentenary next summer and has commissioned an opera for the occasion. It is unlikely to symbolise the power of the institution in the way that this month's ceremony in Frankfurt buttressed the Bundesbank.

Greycoat to seek more time from creditors

By Richard Gourlay in London

GREYCOAT, the property company whose future is in doubt after share and bondholders last Friday rejected a rescue bid from Postel, faces a crucial test today if it is to keep creditors at bay.

The company and NM Rothschild, its advisers, will this morning ask the Law Debenture Trust, trustee for holders of Greycoat's zero coupon bonds, for more time to find a way to avoid being put into default.

If the Trustees choose not to waive their rights to issue default notices, Greycoat's bankers are likely to take control of their security and the company would go into receivership.

Greycoat's advisers expect to be granted a 30-day extension to find a way to reduce the company's high gearing that triggered the default on the zero coupon bonds.

NM Rothschild and Greycoat would then have "a fortnight to get something creative going", an adviser said.

If no new rescue plan or bid emerged Greycoat's directors would be in danger of becoming personally accountable for allowing an insolvent company to continue trading.

After the rejection last week of Postel's £120m ($181m) rescue bid, one observer described the hush over the weekend as "something of phoney war".

Greycoat will only avoid default on its zero coupon bonds either by a restructuring including a rights issue, or by a third party making a bid for the whole company.

Gormly gives up top job at Trafalgar

By Roland Rudd

MR ALLAN GORMLY will next year step down as chief executive of Trafalgar House when he is expected to take a more prominent role at Royal Insurance, where he is a non-executive deputy chairman.

Trafalgar, the construction, engineering and shipping group, is planning to announce the move in the next few weeks. Mr Gormly's departure is not expected to take place until the middle of next year.

Mr Gormly will remain on Trafalgar's board and is likely to be succeeded by Mr Nigel Rich, who retires as managing director of Jardine Matheson in March 1994. Mr Rich is expected to take an extended holiday before returning to the UK.

Hong Kong Land, controlled by Jardine Matheson and which has a 25.3 per cent stake in Trafalgar, has tightened its control over the UK construction and engineering group. Earlier this year Mr Simon Keswick was installed as chairman and Mr David Gawler as financial director.

However, Trafalgar said yesterday that relations between Mr Gormly and the Keswick family, who control Hongkong Land, remained very good.

Trafalgar's financial year ended on September 30 and the results, to be announced on December 14, are expected to show a loss.

Mr Gormly is one of the last surviving board executives before Hong Kong Land took effective control at the end of last year. He was previously chairman of the company's engineering division.

Institutions optimistic on prospects and equities

By Joel Kibazo

A MAJORITY of institutional investors believe the UK equities market to be the most attractive investment prospect on a 12 month view over other markets, and many remain confident about prospects for the UK economy, according to a survey published today.

The monthly Smith New Court/Gallup survey of fund managers reveals that a balance of 77 per cent of institutions (the difference between those institutions that are positive and those that are negative) remain bullish on UK equities over the next 12 months; against a balance of 56 per cent in favour other European markets; 50 per cent positive on the Japanese market and a mere 4 per cent that favour the US market.

A balance of 22 per cent of those polled plan to increase their holdings of UK equities this month, up sharply from 7 per cent the previous month, with 56 per cent favouring the FT-SE 250 stocks while 37 per cent prefer to limit investments to the FT-SE 100.

Overall, institutions continue to be optimistic about economic recovery and inflation, and many continue to expect a cut in interest rates.

Matthew Clark takes control of own fortunes

Philip Rawstorne on the success of the group's three year restructuring programme

MATTHEW Clark, the drinks producer and wholesaler, got a solid vote of confidence from the market at the weekend for its three year programme of strategic restructuring.

Shares in the group jumped 25p to 523p – a reflection of investors' satisfaction with its latest acquisition, the £32.5m purchase of Grants of St James's from Allied-Lyons.

The fact that the move will be funded by Clark's second rights issue within four months made the reaction even more remarkable.

But Grants adds tone as well as substance to the transformation of the group by Mr Peter Aikens, chief executive. Since he began to reshape it in 1990, the shares have outperformed the brewers and distillers sector by 50 per cent.

In 1989, Clark was a leading independent drinks distributor. Well over half its annual profits came from Martell cognac, which it had distributed in the UK since 1833. Its portfolio included Jameson's Irish whiskey, Macallan malt whisky, and Taittinger champagne.

The only brands Clark could call its own, through a 52 per cent stake in JE Mather, the Leeds-based producer, were Stone's Original ginger wine, and Old England British sherry.

Run on traditional lines by the Clark family, which had a shareholding of about 17 per cent, the company was jogging along comfortably until the ground was suddenly cut from under its feet.

Seagram took over Martell, Pernod-Ricard acquired Irish Distillers and Clark had lost the distribution of its most profitable brands.

For another year, Clark struggled to fill the gap with other agency brands such as Domecq sherry, Fundador brandy, and Grand Marnier liqueur. But the loss of the Macallan Scotch whisky business after the 1990 alliance of Rémy Cointreau and Highland Distilleries confirmed the inherent uncertainty of the agency business.

By then, Mr Aikens, recruited from Courage by Clark's non-executive directors, was already beginning to devise a strategy for more solidly based growth. Under his direction, the company began a gradual withdrawal from the agency business to concentrate on its core British wine and sherry operations.

British sherry may not appeal to connoisseurs – and will even have to stop describing itself as sherry in 1995 – but it sells more readily than the Spanish product. It now has more than 50 per cent of the UK sherry market and sales are growing at more than 6 per cent a year.

In December 1990, Clark bought out the minority holders in Mather, Bass and Grand Metropolitan's IDV spirits division, for £12m. The partnership had been a constraint on Clark's development, effectively preventing it from acquiring or producing new brands because of possible competition with Bass and IDV products.

As the search for brand acquisitions got under way, Clark disposed in rapid succession of three non-core businesses, almost recouping the money spent on Mather.

A series of management changes followed. The Clark family reduced its shareholding and retired from the scene. Mr Michael Cottrell, chairman of Taunton Cider and former managing director of Courage, took the chair. Mr Hugh Etheridge came from Strong & Fisher as finance director and Mr Tim Hazell, another ex-Courage executive, took over as sales and marketing director. Mr Peter Huntley, a member of Elders IXL strategy group, was appointed business development director.

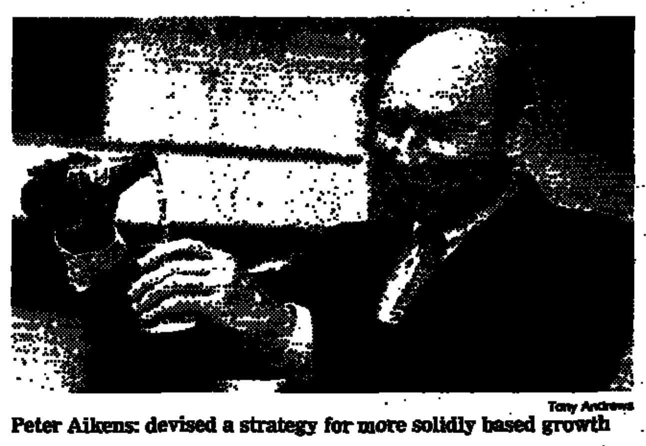
With the arrival last month of Mr Robin Manners, former Bass director, as a non-executive, only one member of the pre-1990 board, Mr Tony Grayson, production director, now remains.

Clark took longer than expected to make its first brand acquisition but organic growth in its British sherry and wines operations came up to market expectations in spite of the recession and the squeeze on margins by its main customers, the multiple grocers.

An attempt in late 1991 to acquire Allied-Lyons's Showerings business, with brands such as Gaymer's cider, Babycham, and VP wine, failed. A number of other approaches came to nothing.

In May last year, however, it bought Strathmore, Scotland's leading bottled water brand, for £11m. The purchase took Clark into another growth sector.

The brand had gained a 25 per cent share of the bottled water market in the Scottish grocery sector in six years and was beginning to expand into England. Sales through Clark's distribution network are now growing at the rate of 20 per cent a year.



Tony Andrews

Peter Aikens: devised a strategy for more solidly based growth

Earlier this year, Mr Aikens moved into another cash generative growth area with the £18.8m acquisition of 74.9 per cent of Freetraders, an independent drinks wholesaler.

The business, which reported a 45 per cent increase in sales and operating profits of £2.3m last year, neatly complements Clark's existing strengths in the take-home trade.

Even before the addition of Grants' wines and spirits business, Mr Aikens expects the operation to be contributing 40 per cent of Clark's profits within the next six months.

In the three years of strategic restructuring, Matthew Clark has taken control of its own fortunes and increased its market capitalisation from £26m to £74m.

CSI sells two loss-makers for £1.35m

Cannon Street Investments, the mini-conglomerate, has sold its loss-making fork-lift truck businesses.

CSI sold the fixed assets and stock of Cannon Material Handling and Wallright to Harvey Plant for £1.35m in cash. At the same time, CSI said the obligations of the two companies to various creditor leasing companies had been settled for £3.8m, roughly the capital liability in CMH and Wallright's accounts.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
HIT (Hong Kong)	Yantian International Terminals (China)	Containers	£398m	Reinforcing sector domination
Investcorp (Bahrain)	Camelot Music (US)	Retailing	est £210m+	Expanding into music
Boskalis (Netherlands)	Unit of British Aerospace (UK)	Construction materials	£180m	Non-core disposal
IWP (Ireland)	Levendaal Beheer (Netherland)	Personal care	£49m	Strengthening market position
Coca-Cola Amatil (Australia)	PT Djaya Beverage Bottling (Indonesia)	Bottling	£30m	Acquiring majority stake
Petroleos de Venezuela (Venezuela)	BP Bitor (UK/Venezuela)	Energy	£3.3m	BP sells dirtiest stake
Albert Fisher (UK)	Imperial Produce (US)	Food	£2.6m	Completing a US jigsaw
Huhtamaki (Finland)	Unit of Carnaud MetalBox (UK/France)	Plastics	n/a	Non-core disposal
Oerlikon Buhrle (Switzerland)	Leybold (Germany)	Engineering	n/a	Buy from Degussa
Trebruk (Sweden)	Kostrzyn (Poland)	Pulp & paper	n/a	Debt and invest ment deal

Coutts Consulting deal raises dividend hopes

COUTTS Consulting Group, the career consultancy, outplacement and residential training company, has side-stepped objections by Mr Barry Topple, its former chief executive, and found a way of eliminating the deficit on its share premium account allowing dividends to be paid.

Coutts hoped that as a result Mr Topple's compensation claim and their counter-claim for £3.4m damages would now reach a rapid conclusion.

Eynsham Hall, Coutts' residential training offshoot, is acquiring Coutts Consultants, its outplacement business. The move releases merger reserves of £4.1m as well as showing a book profit of £2.9m. There are still arrears of £600,000 on the preference shares.

The deal completes the reorganisation at Coutts Consulting, formerly DC Gardner.

A previous attempt to reduce the share premium account had been blocked by Mr Topple.

Mr Tim Inglefield, finance director, said the company would have preferred to achieve the result in front of the shareholders by going through the courts, but this had not been possible.

Slingsby jumps to £302,000

HC Slingsby, the trucks and ladders maker, reported a strong advance in interim pre-tax profits for the half year to June 30. The company said there had been a marked increase in activities coupled with cost rationalisation.

On turnover 14 per cent ahead at £5.9m pre-tax profits advanced from £28,000 to £302,000. Earnings per share were 20.9p (1.4p) and the interim dividend came to 3p (2p), payable January 4.

However, the company warned that present indications were that second half profits would be more modest than the first.

Gartmore makes four board appointments

By Richard Lapper

GARTMORE, the rapidly growing fund management group owned by France's Banque Indosuez, is to appoint four independent non-executive directors, as it prepares for flotation later this year.

The new non-executives are: Mr Victor Benjamin, the deputy chairman of Tesco, the retailer; Mr Simon Duffy, group finance director of Thorn EMI, the music and electronics group; Mr Nigel Rudd, the executive chairman of Williams Holdings, the industrial conglomerate; and Mr James Watson, chairman of NFC, the transport group.

Banque Indosuez will be represented on Gartmore's board by a further four non-executive directors, including Mr Antoine Jeancourt-Galignani, the Banque Indosuez chairman.

"The non-executive directors will not only provide Gartmore with a strong independent range of opinion and a focused input to such management areas as remuneration and audit, but will also make a substantial contribution to the overall development of the group," said Mr Paul Myners, executive chairman.

هكذا من الاصل

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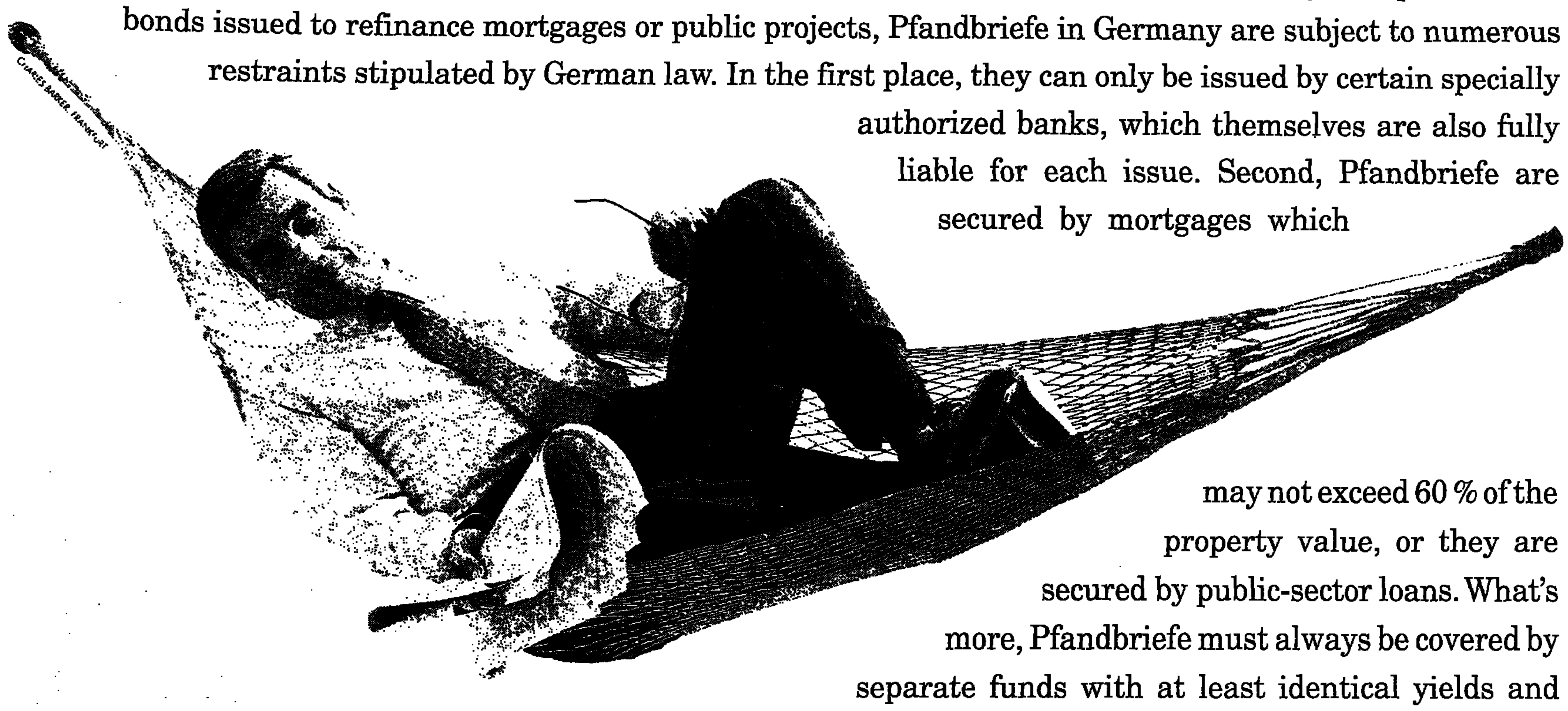

may not exceed 60 % of the property value, or they are secured by public-sector loans. What's more, Pfandbriefe must always be covered by separate funds with at least identical yields and maturities. In addition, all Pfandbriefe are examined by a state-appointed trustee. Finally, holders of Pfandbriefe have first claim on assets in case of default. As a result of these and other requirements, the German Pfandbrief system has an unsurpassed track record for safety. In fact, no German mortgage bank has ever defaulted, and no investor has ever failed to receive 100 % repayment on a German Pfandbrief held to maturity.

This time-tested legal framework plus yields usually higher than on German Treasury bonds (Bunds) help explain why Pfandbriefe, at DM 832 billion at year-end 1992, amounted to about 40 % of all bonds outstanding in Germany. Of this total, Germany's 26 private mortgage banks accounted for DM 503 billion. So with German Pfandbriefe you don't have to relax your expectations.

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BAYERISCHE VEREINSBANK AG, MÜNCHEN
HYPO-BANK, MÜNCHEN
DEUTSCHE HYPOTHEKENBANK FRANKFURT AG, FRANKFURT
RHEINHYP, FRANKFURT
DEUTSCHE GENOSSENSCHAFTS-HYPOTHEKENBANK AG, HAMBURG
FRANKFURTER HYPOTHEKENBANK AG, FRANKFURT
DEUTSCHE CENTRALBODENKREDIT-AG, KÖLN
BAYERISCHE HANDELSBANK AG, MÜNCHEN

WESTHYP, DORTMUND
BERLIN HYP, BERLIN
SÜDDEUTSCHE BODENCREDITBANK AG, MÜNCHEN
MÜNCHENER HYPOTHEKENBANK EG, MÜNCHEN
HAMBURGHYP, HAMBURG
WÜRTTEMBERGER HYPO, STUTTGART
NÜRNBERGHYP, NÜRNBERG
HYPOTHEKENBANK IN ESSEN AG, ESSEN
DEUTSCHE HYPOTHEKENBANK (ACT.-GES.), HANNOVER

BRAUNSCHWEIG-HANNOVERSCHE HYPOTHEKENBANK AG, HANNOVER
ALLGEMEINE HYPOTHEKEN BANK AG, FRANKFURT
RHEINBODEN HYPOTHEKENBANK AG, KÖLN
LÜBECKER HYPOTHEKENBANK AG, LÜBECK
NORDHYPO BANK, HAMBURG
BFG-HYPOTHEKENBANK AG, FRANKFURT
WL-BANK, MÜNSTER
HYPOTHEKENBANK IN BERLIN AG, BERLIN

US-Canadian consortium in Chilean copper venture

By David Pilling in Santiago

A US-CANADIAN consortium of Cyprus Minerals Company and Lac Minerals has agreed to pay up to $555m for a 51 per cent stake in the El Abra copper mine, Chile's largest-ever foreign joint venture. Codelco, Chile's state copper company, is to hold the remaining 49 per cent in the project, which is expected to cost $1bn to develop.

The Cyprus/Lac consortium will pay $404m on signing the contract, due to take place in January, and an additional sum of up to $151m depending on the mine's development costs. The consortium has also committed itself to securing financing of $700m to meet investment requirements.

El Abra, which could start production as early as 1997, was the biggest copper deposit for sale in the world. Nine international consortia, including such companies as RTZ of the UK and Australia's BHP Minerals, submitted bids last month.

Such enormous interest highlights Chile's growing reputation for providing a stable, long-term investment climate. Last year, Standard & Poor's, the US credit rating agency, awarded Chile an investment grade, the first to a Latin American country since the debt crisis of the early 1980s.

The El Abra deal is seen by many officials as a breakthrough for Chile's state-dominated mining sector, which has until recently resisted foreign investment. Under a law passed last year, El Abra will be the first state-owned copper deposit to be developed with the private sector.

Mr Alejandro Foxley, the finance minister, praised the policy of wooing foreign investors to the mining industry: "Why should we divert public funds into areas where the private sector can invest? Then we can take that money and put it into infrastructure – education, health services and job training programmes. That's the real job of the government."

Cyprus/Lac plans to produce 225,000 tonnes of copper cathodes annually over 20 years. The grade and relative accessibility of El Abra's oxide reserves is expected to result in extremely low production costs. These should be 40 to 45 cents a pound against Codelco's current average of 69 cents.

Philips confirms deal with Rabobank

By Ronald van de Krol in Amsterdam

PHILIPS, the Dutch electronics group, has confirmed that it recently arranged a sale and lease-back transaction with Rabobank, the big Dutch co-operative bank,but declined to give any further details of the deal.

The company refused to comment on a Dutch radio programme which reported that Rabobank had purchased certain intangible assets, such as patents and technology licences, and then leased them back to Philips.

The programme said the transaction was arranged in the summer and was worth several hundred million guilders.

Philips, which is redoubling efforts at asset management under its finance director, Mr Dudley Eustace, would say only that the transaction had taken place "recently" but it refused to say what kind of assets were involved or how much they were worth.

The deal received indirect blessings from the Dutch government. It emerged on Friday that the Dutch cabinet approved the tax implications of the deal in the summer after the country's tax authorities had initially balked at Rabobank's plans to purchase the assets.

The deal means Rabobank is likely to pay less corporate tax this year than would otherwise have been the case.

The Amsterdam stock exchange said it had not yet decided whether the transaction was price-sensitive information which should have been reported to investors.

Philips' shares did not react to news of the lease-back arrangement, closing unchanged on Friday at Fl36.20.

The transaction has received wide attention in the Netherlands, where it has been interpreted as a gesture of government support for one of the country's most important companies.

Philips, which is plagued by recession in the consumer electronics industry, has been making a concerted drive to cut its working capital and boost its cashflow. Until now, however, it has not publicly reported a lease-back arrangement.

Earlier this year, Philips bolstered its balance sheet by selling its minority stake in a semi-conductor joint venture to Matsushita of Japan, generating a gain of Fl 1.1bn.

Tokyo cracks down on builders

Robert Thomson writes on the latest Japanese political scandal

FOR the past few weeks, Japanese television viewers have watched the almost nightly drama of construction company executives being hauled from their homes and escorted to the Tokyo Detention Centre for questioning about their role in an unfolding political scandal.

The construction industry is traditionally an important source of campaign cash for Japanese politicians. At the last count, 18 executives from five leading contractors had been arrested for alleged involvement in the bribery of provincial government leaders. The public prosecutors continue to circle the industry.

This crackdown by the authorities has come at a difficult time for construction companies where margins are already under severe pressure from the downturn in the economy and an accompanying 30 to 40 per cent fall in property prices.

Most contractors have downgraded their profit forecasts for this year, and the five companies implicated in the scandal – Taisei, Shimizu, Hazama, Mitsui Construction, and Nishimatsu Construction – are likely to feel the squeeze more than most. They are temporarily excluded from bidding for some public works contracts.

"The situation is really very severe, and we will have to try to regain confidence," a manager at Taisei explained. Taisei was embarrassed this week by the arrest of a vice-president over the company's Y20m ($190,000) payment to a prefectural governor. Prosecutors say the payment was a bribe, while Taisei insists that it was merely a political donation.

A court will ultimately decide, but the Construction Ministry has already suspended Taisei from public works contracts for two months and local governments might do the same. In an average year, the company said, public works account for 20 per cent of orders, but the ratio had risen from 25 to 30 per cent this year.

Before the arrest this week, Taisei was expecting pre-tax profit for the six months ended September to be 34.8 per cent lower than a year earlier on sales down 6.4 per cent. The only positive turn for Taisei is that Japanese interest rates are now at their lowest ever levels with the official discount rate standing at 1.75 per cent.

In the case of Hazama, another implicated contractor, 47 prefectural governments and 12 cities imposed temporary bidding bans, ranging from two to four months, which the company said will remain in place until we "are designated as a bidder again".

Under the Japanese bidding system for public works projects, a company must be "designated" by the authority responsible, which is under no obligation to explain why a company is overlooked in the bidding, meaning that a suspension may be indefinitely extended by some governments.

"We won't really know when the penalties are over until we are nominated again," Hazama said. "Even though the period of our ban is two months, the period will not exactly be two months. It is likely to be longer."

Last week the company was forced to revise downwards its forecasts on profits for the current corporate year, ending March. Its forecast for net profits was lowered by 26.7 per cent on sales expected to be 12.7 per cent lower than earlier estimated.

Hazama might benefit from an increase in public works orders next year, as governments have held back in awarding contracts, fearing that the winner may be entangled in the scandal, which would force the complicated award procedure to be conducted again.

In August, government orders to the 50 largest contractors were down 42.7 per cent on a year earlier, the largest fall since the Construction Ministry began collecting figures in 1959. In the same month, private orders were down 9.3 per cent, partly reflecting the growing surplus of office space in Tokyo and Osaka, the two largest cities.

The surplus is particularly acute in newer commercial areas, where buildings sprouted during the late 1980s, the bubble era, and developers are still completing the more ambitious projects planned during those heady days.

Officials at the Co-operative Credit Purchasing Company, established by Japanese banks to clear away bad property-related loans, expect commercial property prices to continue falling for at least another year.

Japanese manufacturers account for about 20 per cent of private construction orders, but are reducing capital spending at home and expanding production facilities in cheaper east Asian sites.

The Industrial Bank of Japan expects that capital spending this year will slip by 2.3 per cent, the second consecutive fall, and the Bank of Japan has warned that the higher yen could lead to a "massive substitution" of overseas investment.

In these harsh conditions, scandal is an unwelcome burden, but companies which have avoided implication in the latest spate of allegations are likely to receive a fresh flow of orders. For example, Obayashi this week raised its pre-tax profit forecast from Y52bn to Y60bn for the year to March.

However, the company has cut the net profit forecast from Y23bn to Y13bn, as it has chosen to confront a separate but common affliction for the industry, over-exposure in the US property market. Obayashi is to liquidate three subsidiaries and write off losses of Y30bn.

Nikkei 300 share index launched

By Emiko Terazono in Tokyo

A NEW capitalisation-weighted index of 300 leading shares listed on the Tokyo stock exchange is being launched.

The index is expected to end a two-year debate over the volatility of the Nikkei 225 index, a simple price-weighted average of 225 stocks, which is used by the Osaka Securities Exchange and overseas markets as a base for the controversial stock futures contract.

Japanese financial authorities have blamed the heavy trading in the futures market for driving investors away from the stock market. After a spate of restrictions to curb trading in the futures and options markets failed to bring investors back into stock investments, the ministry of finance and stock exchange authorities agreed that the simple weighted index, which is seen as easily manipulated, was at fault.

The Nihon Keizai Shimbun business newspaper said the Nikkei 300 was an additional index and that the Nikkei 225 would continue to be used as a benchmark for the Tokyo stock market. The Osaka exchange is expected to introduce a new stock index futures contract based on the new index to replace the Nikkei 225 futures contract next January.

The Nikkei 300 is heavily weighted in the banking sector, with 10 banks comprising 23.77 per cent of the index's capitalisation.

Interim downturn at Worms holding group

By Alice Rawsthorn in Paris

WORMS, the French holding company, reflecting the gloomy trend in the corporate sector, announced a fall in net profits to FFr362m ($64m) in the first six months of 1993 from FFr397m a year earlier.

The group, which recently reshuffled its interests by selling its controlling stake in the Financière Truffaut luxury goods conglomerate to Mr Bernard Arnault, was affected in by the poor performance of some of its core holdings, including the Saint-Louis food and transport group.

Profits from Saint-Louis fell to FFr252m in the first half from FFr462m last year, partly due to high restructuring costs. Worms was also affected by the problems of Compagnie Nationale de Navigation (CNN) in the oil transportation sector. The losses from CNN rose to FFr46m from FFr8m.

Athena, the insurance company, suffered from the general pressures on the French insurance sector. Net profits from Athena fell to FFr217m from FFr257m. The losses from Arc Union, the property company, were reduced to FFr49m from FFr167m while net profits from the Demachy Worms banking business rose slightly to FFr44m from FFr41m.

The sale of the Financière Truffaut shares yielded a profit for Worms of FFr187m. The group also expects in the second half to make more exceptional gains from the sale of its old corporate headquarters on Boulevard Haussmann in Paris.

Fall at French retailer

By Alice Rawsthorn

BHV, the French retail group best known for its department store by the Hôtel de Ville in Paris, suffered a sharp fall in interim net profits to FFr9.5m ($1.7m) in the first half of this year from FFr20.2m in the same period of 1992.

The group, like other French retailers, has come under pressure because of the sluggish state of the economy. Consumer spending in France has been static for some time, reflecting the high rate of real interest rates and concern about rising unemployment.

News of the decline in BHV's profits follows shortly after a gloomy announcement by Pinault-Printemps, another leading stores group, that its interim net profits fell to FFr189m from FFr330m.

BHV's sales declined by 7.8 per cent to FFr1.89bn in the six months from FFr1.75bn at last year's interim stage. As a result,it remained in the red at the operational level with a loss of FFr21.2m, against FFr8m last year.

The company attributed the fall in sales and its operational losses to the "difficult economic environment".

NEWS DIGEST

Third-quarter profits down 36% at Alcoa

ALCOA, the big US aluminium producer, said its own 25 per cent cutback in US aluminium production in the third quarter had failed to bolster prices, and that rising world aluminium inventories and a corresponding price slide led to a 36 per cent drop in its third-quarter earnings, writes Laurie Morse in Chicago.

The company said it earned $28.8m, or 32 cents per common share, in the quarter, down from $45.3m, or 52 cents, in the same quarter last year.

The quarterly results benefited from $22.6m in tax adjustments, and included a $4m charge for employment reductions at Alcoa's fabricating plant in Davenport, Iowa. Sales for the third quarter slipped to $2.2bn, from $2.4bn a year ago.

For the first nine months, Alcoa had operating earnings of $96m or $1.08 a share, although special charges reduced the total to $91.7m or $1.03.

In the comparable period last year, before a special accounting change, the company earned $156.9m or $1.81 a share.

Amdahl forecasts deeper loss

AMDAHL, the struggling US mainframe computer manufacturer, said it expected to report an operating loss for its third quarter "considerably larger" than its $23.7m second-quarter loss, writes Louise Kehoe in San Francisco.

The company blamed continuing "depressed conditions" in the mainframe computer market, together with "intense competitive pressure on pricing" for its losses.

Industry analysts said that International Business Machines, Amdahl's chief competitor in the mainframe market, has been deeply discounting prices of its mainframe computers in a bid to boost sluggish demand.

Amdahl's anticipated losses have raised raised concerns about IBM's performance.

Canadian bank may buy insurer

CANADIAN Imperial Bank of Commerce, the country's second biggest chartered bank, plans to become a big player in trust and insurance deals, according to Mr Al Flood, chairman, writes Robert Gibbens in Montreal.

However, along with several other Canadian banks, CIBC is cutting back in Europe and closing offices in Paris, Frankfurt and Milan. It will leave Australia by 1995.

Mr Flood confirmed he has had talks for the possible takeover of Montreal Trust from BCE and National Trust, which is family controlled.

CIBC already has a small equity interest in National Trust while Bank of Nova Scotia is also a contender for Montreal Trust.

In the longer term CIBC is in the market for a US retail bank, Mr Flood added.

Austrian group in the red mid-year

By Ian Rodger in Zurich

RADEX HERAKLITH, the Austrian fireproofing materials and building supplies group, reported a loss of Sch43.2m ($4.3m) for the first half of 1993 compared with a Sch59.4m profit in the same period last year. Revenues dropped by 12 per cent to Sch4.37bn.

Mr Hellmut Longin, chief executive, forecast a slight improvement in full-year profits from last year's Sch130.4m, mainly because of an anticipated Sch60m to Sch99m profit at the Heraklith Baustoffe building materials subsidiary.

Mr Longin also said that both Radex and its two quoted subsidiaries would maintain their dividends.

The group has been hard hit by the slump in the steel industry. Its Veitsch-Radex subsidiary is the world leader in supplying magnesite to line blast furnaces.

THE NEW FT-SE ACTUARIES INDICES CLASSIFICATIONS

From January, 1994, a revised industry classification will apply to the FT-Actuaries All-Share Index and the other FT-SE UK indices. Below are listed the current companies of the All-Share Index presented in their new classifications. Any company wishing to query it's classification should write by October 31 to Mr Adrian Dicks, Secretary, FT-SE Actuaries Industry Classification Committee, Financial Times, Number One Southwark Bridge, London SE1 9HL

10 MINERAL EXTRACTION

[illegible]

20 GENERAL MANUFACTURERS

[illegible]

30 CONSUMER GOODS

[illegible]

40 SERVICES

[illegible]

60 UTILITIES

[illegible]

70 FINANCIALS

[illegible]

80 INVESTMENT TRUSTS

[illegible]

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Finland helps Eurosterling sector back to life

THE EUROSTERLING sector of the international bond market has bounced back to life, helped by a sizeable new issue from Finland last week and the prospect of further new issuance in the coming week.

Depfa (Germany's largest mortgage bank), Fisons, and Turkey are three of the names being talked about in the market as likely to launch Eurosterling deals this week, although a big question mark hangs over the latter.

On Friday, Moody's, the credit rating agency, placed Turkey's rating under review for possible downgrade because of concern about its deteriorating public finances. Turkey has a long-term debt rating of Baa3 from Moody's, making it investment grade. If Moody's lowers the rating, it would fall into the sub-investment grade category.

At worst, Turkey's Eurosterling issue could be postponed until a decision on the debt rating is taken, although market participants on Friday thought the deal would probably still go ahead but with a more generous yield pick-up over gilts than the 220 basis points initially indicated by the lead manager.

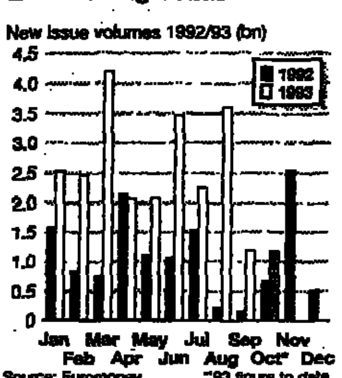
This year has seen a record amount of Eurosterling issuance, admittedly at a time when the international bond market as a whole is witnessing record volume. Eurosterling issuance so far this year has reached £25.012bn, up from 1992's total of £13.107bn, according to figures compiled by Euromoney.

Much of this year's issuance, however, took place in the first and second quarters. Foreign investors were willing to buy sterling assets to take advantage of currency appreciation, while investors in general were attracted by the relatively high yields and the prospect of falling interest rates. Borrowers hungry for funds took advantage of the demand and in many cases the deals were swap-driven.

Eurosterling yield spreads over appropriate gilts have declined quite substantially this year. For example, the S.G. Warburg Securities All-Stocks Non-Gilt Index shows the average spread over gilts has fallen from 98 basis points at the end of 1992, to a low of 58 basis points on August 24, and stood at 61 basis points on Friday.

Eurosterling bonds

New issue volumes 1992/93 (bn)



Source: Euromoney *93 figure to date

For example, BT launched a 10-year £500m issue at a spread of 18 basis points over the gilt on August 25. Since then, the spread has tightened considerably and last Friday, Lehman Brothers, joint lead manager for the deal, was quoting a spread over the gilt of 3 basis points (bid) or flat (offer).

"Spreads have been tight and they are now beginning to reach a low," said one dealer, adding that this was a reflection of strong demand from overseas investors, many of whom were attracted by Eurosterling yields and the prospect of sterling appreciation, particularly against a background of declining European interest rates.

After a period of consolidation in September, the sector appears to have recovered and rumours of further new issuance have started to circulate. However, despite investors' calls for long-dated paper, new supply is likely to be concentrated in the short and medium-dated areas given the positive shape of the yield curve. Most issuance this year has been in the six to 10-year area, with this sector accounting for £12.509bn, compared with £6.311bn in the one to five-year area.

A few names in the financial sector have opted for longer-dated subordinated capital but corporate names have steered clear of the ultra-long area. "If you are a corporate borrower, it is difficult to convince your board to lock into interest rates at 9 per cent at the long end when short interest rates are 6 per cent," said one dealer.

It seems unlikely that corporate borrowers will issue ultra-long bonds unless the yield curve starts to flatten. "At present, any company which borrows at the long end and does not put the money to immediate use is going to suffer an enormous opportunity cost of carry," said Mr Tony Moverley of Baring Sterling Bonds. Also, most corporate borrowers expect long-term interest rates to continue to decline, perhaps to 6.75–7.00 per cent from the current level of 7.2 per cent.

"Frankly, most UK corporates can afford to wait," says Mr Peter Capel of Hoare Govett.

Sara Webb

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Nissho Corp(a)ф	130	Oct.1997	0.75	100	-	-	Nomura International
Telecom Argentina	500	Oct.2000	8.375#	99.40R	8.490	+348 (8¾%-00)	Chase Investment Bank
Pennzoil Co.(c)§	435	Oct.2003	4.75#	100	-	-	Lehman Brothers Intl.
Woodfield Finance Corp.(d)‡	172	Oct.1998	(d)	100	-	-	JP Morgan Securities
K.Peabody Accept.Corp.1(e,f)‡	100	Sep.1998	(f)	100	-	-	Kidder Peabody Intl.
K.Peabody Accept.Corp.1(e,g)‡	100	Sep.2000	(g)	100	-	-	Kidder Peabody Intl.
Sino Land Co.(m)§	175	Oct.2000	5.00	100	-	-	Jardine Fleming
Korea Electric Power Corp.	190	Oct.1995	4.50	99.332R	4.744	+55 (4¼%-95)	Merrill Lynch Intl.
Korea Electric Power Corp.	185	Oct.1995	4.125	99.57R	4.354	+45 (3¾%-95)	Merrill Lynch Intl.
Skandia Capital	150	Nov.1998	6.00	99.838R	6.039	+125 (4¾%-98)	Morgan Stanley Intl.
El Puerto de Liverpool	100	Oct.1996	7.25#	99.84R	7.310	+320 (4¾%-96)	Lazard Frères & Co
Bayerische Landesbank	500	Nov.1998	4.75	99.42R	4.884	+15 (4¾%-98)	UBS
DINE	75	Oct.1998	8.125#	99.95R	8.137	+345 (4¾%-98)	JP Morgan Securities
Banco de Galicia(s,u,w)	50	Sep.1996	7.58##	99.8905R	7.625	+352 (4¾%-96)	ING Bank
D-MARKS							
European Investment Bank	500	Oct.1998	5.75	101.88	5.317	-	WestLB
Bank Austria	250	Nov.2003	6.125	99.375R	6.211	+22 (6¼%-03)	Dresdner Bank
Province of Quebec	500	Nov.2003	6.375	99.325R	6.469	+48 (6¼%-03)	WestLB
Council of Europe(v)‡	100	Nov.2003	6.00	101.90	-	-	Trinkaus & Burkhardt
STERLING							
Republic of Finland	500	Oct.2000	7.00	99.65R	7.065	+37 (9%-00)	BZW/ JP Morgan Secs.
Gracechurch PLF (No.1)(o,p)‡	250	Dec.1998	(o)	99.975R	-	-	Barclays de Zoete Wedd
Gracechurch PLF (No.1)(o,q)‡	30	Dec.1998	(o)	100	-	-	UBS
Bank of Scotland(t)	200	undated	8.625	99.204R	8.710	+130 (8%-13)	Hoare Govett/ Salomon
YEN							
Sumitomo Corp.O'seas Capl.(s)	15bn	Feb.1998	2.90	100.15R	-	-	Mitsubishi Finance Intl.
FRENCH FRANCS							
France Telecom	2bn	Nov.2006	6.25	98.53R	6.420	+16 (h)	CCF
Kingdom of Sweden(i)	1bn	Oct.2003	6.45	100R	6.450	+35 (6¾%-03)	CCF
Kingdom of Denmark	7bn	Oct.1999	5.50	98.61R	5.781	+15 (5¾%-99)	Banque Paribas
Department of Hauts-de-Seine	700	Nov.2004	6.25	99.53R	6.311	+22 (8¾%-04)	Deutsche Bank France
General Electric Capital Corp	1.5bn	Oct.1998	5.50	98.898R	5.780	+20 (5¾%-98)	Merrill Lynch (France)
Crédit Local de France(l)	1bn	Aug.1998	5.75	99.941R	5.759	+18 (5¾%-98)	CNCA
Banque Paribas	4bn	Nov.1998	6.00	99.33R	6.160	+52 (5¾%-98)	Banque Paribas
CANADIAN DOLLARS							
Bayerische Landesbank‡	100	Nov.2003	(j)	99.975R	-	-	M. Lynch/ Wood Gundy
Inter-American Dev'ment Bank	250	Nov.2003	7.25	99.065R	7.386	+23 (7½%-03)	Swiss Bank Corp.
Telesat Canada	75	Oct.1998	7.50	99.55R	7.612	+110 (6½%-98)	CS First Boston
KfW International Finance	200	Nov.1997	6.00	99.58R	6.122	+33 (6¼%-96)	Swiss Bank Corp.
Bayerische Vereinsbank	150	Dec.1997	6.00	99.375R	6.17	+37 (6½%-96)	Wood Gundy
General Electric Capital Corp	125	Nov.1998	6.375	99.85R	6.411	+15 (6½%-98)	Paribas Capital Markets
ITALIAN LIRE							
Cie Industriali Riunite(k)§	283bn	Oct.1998	2.00	81.209	-	-	Lehman Brothers Intl.
Bayerische Hypobank	150bn	Nov.1998	8.05	101.755	7.615	-	BCI/ Banca Euromobiliare
Kingdom of Sweden	300bn	Oct.1996	8.00	101.53	7.413	-	Banca Euromobiliare
AUSTRALIAN DOLLARS							
GMAC Australia Finance	50	Nov.1998	7.25	101.55	6.873	-	Hambros Bank
Sth.Australian Govt.Fin.Auth.	100	Nov.1998	6.50	101.50	6.143	-	Hambros Bank
DANISH KRONER							
City of Copenhagen	350	Nov.2000	6.75	102	6.387	-	Unibank
PESETAS							
Kingdom of Denmark‡	15bn	Oct.1998	(n)	100R	-	-	Bco.Negocios Argentaria
HONG KONG DOLLARS							
Swedish Export Credit	300	Nov.1998	(l)	100R	-	-	Morgan Stanley Asia
SWISS FRANCS							
Asahipen Corp.(b)+ф	80	Oct.1997	0.50	100	-	-	Credit Suisse
STEG+	80	Nov.1997	4.375	102	3.826	-	Credit Suisse
Tokyo Gas Co.	200	Nov.2002	4.50	102.375	4.178	-	UBS
UIC(u)	100	Nov.2000	4.75	101.75	4.454	-	Coutts & Co.
City of Vienna+	150	Nov.1997	4.25	101.90	3.730	-	Swiss Bank Corp.
LUXEMBOURG FRANCS							
Genfinance Luxembourg	1bn	Nov.2003	7.375	101.95	7.096	-	BGL

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. [illegible]

RISK AND REWARD

Volatility a derivative of the new US accounting standards

US BANKS and insurance companies will have more market risks to manage when new US accounting standards come into effect in January. The rules require countless capital-sensitive institutions to reconsider the assets in their portfolio, and in some cases, mark them to market for the first time, , that is, price a position or portfolio at current market prices.

Assets not intended to be held to maturity must either be classified as "available for sale", and marked to market, with unrealised gains and losses reflected in equity, or counted as "trading" with unrealised gains and losses affecting income.

That is a shock to the more conservative banks that value assets at historical amortised cost. If a bank has long-term bonds in its portfolio and cannot prove they will be held to maturity, the securities must be marked to market quarterly.

Since the current low interest rate environment has been kind to long-term investments, the initial effect on most institutions' equity will be beneficial. But under the new rules, profitable portfolios will be subject to the whims of the market, and even a small increase in interest rates at the end of a reporting period could mean marking down asset values.

The new standards, dubbed Financial Accounting Standards Board rule 115 (FAS 115), will skew the true picture of the nation's banks and introduce unnecessary capital volatility, according to the American Bankers Association, the US banking lobby. Part of the ABA's objections are based on the fact that FAS 115 addresses only one side of the balance sheet. Even if a bank has perfectly matched assets and liabilities, only the assets will be marked to market, conveying an inaccurate picture of its capital position.

The reaction by small banks has been to shorten their capital holdings. Maturities of four years or under are far less volatile than long-term bonds, though not nearly so profitable. With the yield curve at its steepest level in years, shortening maturities could mean sacrificing 200 to 300 basis points in income, trimming earnings.

Given the recent history of US banking, bankers say they will gladly forgo income to preserve capital and public confidence. Derivatives specialists argue that the trade-off need not be so costly, and proper hedging can insulate a portfolio from market volatility. Mr Craig Schiffer, managing director for fixed income derivatives at Lehman Brothers, says he has seen a big pick-up in interest in off-balance sheet products since FAS 115 was announced in June.

Most popular with banks, he says, have been index amortising swaps, and collateralised mortgage obligation (CMO) swaps. Where standard interest rate swaps exchange coupons while principal remains unchanged, both of these products allow for the principal to be drawn down if interest rates fall, imitating mortgage prepayments.

Mr Richard Lodge, a senior vice president with Ohio-based BancOne, a rapidly-expanding super-regional bank, says derivatives allow a bank to customise its portfolio. "You can get the kind of risk you want, and the kind of maturities. That isn't available in the bond market. In the cash market, you have to buy what's on the shelf."

He admits his bank's enthusiasm for derivatives is rare and that invariably, when BancOne buys a regional affiliate, it comes with little experience or understanding of derivatives. Valley National Bank of Arizona, with $12bn in assets, had barely dabbled in derivatives when BancOne bought it a year ago. A designed programme of derivatives stabilised its assets, and with a recent subordinated debt issue, boosted capital ratios.

Still, Mr Lodge worries that FAS 115 will drive uninitiated bankers to derivatives use for the wrong reason, and draw the attention, and ire, of regulators already uneasy with the systemic risks associated with structured securities. "My fear is they will rush into these things headlong," he says. "Most small and medium-sized banks don't have the means to manage them."

Wall Street, he adds, has the responsibility to make sure the derivatives they sell are suitable for these new customers.

Laurie Morse

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Dealers pin hopes on inflation figures

BOND specialists are hoping publication this week of the latest figures for UK retail-price inflation will breathe new life into a lacklustre gilt market.

A month ago, gilts suffered a sharp fall after a higher than expected increase in inflation in August. An inflation figure for September substantially different from the one anticipated by gilt dealers is likely to move the market substantially.

This week also sees publication of a range of other UK economic data, including the latest unemployment figures and details of factory goods inflation last month, which may influence the market after a run of two weeks of muted yield reductions.

Last week, long-dated gilts saw a fall in yields of about 10 basis points, with the yield on 15-year bonds being quoted on Friday night at just over 7 per cent on a par basis.

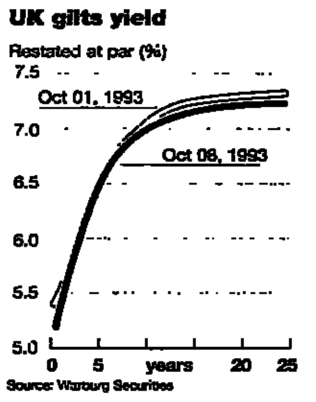
The market's subdued recovery from the surprise of a 1.7 per cent increase in the retail prices index in the year to August has been mainly due to the generally good performance of other European bond markets. There has also been the perception in the UK that the recovery is weakening, a factor helping drive the belief that inflationary forces are still relatively insubstantial.

On Wednesday, the Central Statistical Office will announce the year-on-year rise in the RPI to last month. City analysts expect this will stay at 1.7 per cent. They also believe the Treasury's figure for underlying inflation – the year-on-year rise in the RPI, excluding mortgage interest payments – will be 3.1 per cent last month, the same as in the year to August.

Behind these expectations is the feeling that the UK economic recovery is running out of steam, a view backed by a survey of opinion among nearly 2,000 British companies published today by Dun & Bradstreet, a business information company. This says the upturn is "flattening out", with more than a fifth of employers not planning to give staff pay increases over the next year.

UK gilts yield

Restated at par (%)



Source: Warburg Securities

More evidence of weak economic conditions will be sent privately by fax later today to UK Treasury economists from the House Builders' Federation. This is a trade association which every Monday sends the department data on the latest level of demand for new houses as registered by 26 of Britain's big housebuilding companies.

The Treasury uses this data in trying to monitor economic conditions in the UK generally, part of its new-found interest in following events in a range of specific industrial sectors.

The federation's latest figures indicate subdued demand for new houses, a big factor in the sluggish pace of growth in the past six months. Mr Roger Humber, the federation's director, says: "The housing business has seen some improvement from last year. But last year was terrible. We're still some way from being where we would like to be."

As for other industrial sectors, Mr Kevin Mahoney, managing director of double-glazing company Caradon Everest and a member of the Treasury's industrial prospects committee, says demand in his sector is patchy, adding:"We're unlikely to see any rapid take off [in overall demand]".

While sentiment like this persists in the business world, demand for gilts is likely to remain relatively strong, keeping prices at around existing levels.

● The Bank of England is selling from today £950m of gilts in three tranches: £350m of 7 per cent Treasury bonds due 2001, £350m of 8¾ per cent Treasury stock due 2017 and £250m of index-linked 2½ per cent bonds due 2011. The 2001 stock is being issued at a price of 101$\frac{11}{32}$, the gilts due 2017 at 118 and the index-linked stock at 168%.

Peter Marsh

DUTCH BONDS

Yield gap with German bunds expected to narrow

DUTCH government bonds are set to outperform other D-Mark bloc markets near-term, underpinned by their supply advantage, but the yield gap between Dutch and German bonds is expected to narrow towards year-end as Dutch issuance resumes and the two countries' inflation rates begin to converge.

With Thursday's sale of Fl 2.8bn of 30-year 7.5 per cent Dutch State Loans the government has all but completed its 1993 funding programme, leaving only some Fl 1.5bn to be raised through private placements and on the money market.

Last week's auction of state loans was a roaring success, boosted by heavy bidding from foreign investors who snapped up about 90 per cent of the issue.

There will be no more auctions until the end of the year, when the government starts front-funding next year's deficit.

"We plan to hold our traditional December issue around mid-December," said an official at the national debt office.

The 1994 borrowing requirement is set at Fl 51.5bn, barring any early redemptions to the government.

This year, such early redemptions cut the funding requirement to Fl 40.7bn from a forecast Fl 45bn, the official said.

The Dutch supply situation compares favourably with that of Germany, where the bund market will have to digest another four long-dated issues and three medium-dated debt issues, which are expected to total around DM50bn, before the end of the year.

A further advantage over Germany is that the Dutch bond market, with maturities of up to 30 years, offers investors a significant duration pick-up over bunds, the maximum maturity of which is 10 years.

"For duration-junkies, this is the place to be," says a trader. France also has a liquid 30-year sector but currency worries there have been putting many investors off.

The past few weeks have seen widespread maturity-lengthening by international investors amid fading hopes for near-term interest rate cuts.

Central banks across Europe are waiting for the Bundesbank to kick off the next round of rate cuts, but even when that does happen, the easing pace is expected to remain very cautious, underpinning longer maturities most.

"On the Dutch yield curve, the best strategy is the duration strategy," said Mr Torsten Böhler, bond analyst at UBS.

Despite last week's surge, the 30-year 7.5 per cent bond still looks quite cheap, said one trader, who pointed out that at 51 basis points, the spread between the 30-year and 10-year yield was well above its 39 basis point low earlier this year.

The bond also looks attractive compared with the US long bond, offering a yield pick-up of some 42 basis points.

Lastly, the Dutch 30-year is one of the few bonds in Europe's core markets that offers a positive cost of carry - a yield above money-market funding rates.

Dutch three-month money currently trades around 6.28 per cent while the 30-year bond yields some 6.39 per cent.

In the 10-year sector, Mr Böhler at UBS expects the Dutch yield to move as much as 20 basis points below the bund yield near-term, largely on the supply argument. Late on Friday, the yield gap was nine basis points.

However, the market's outperformance may not last far into the next year as the Dutch economy, which stagnated this year, stages a faster recovery than Germany's.

UBS is forecasting GDP growth of 1.5 per cent, compared with forecasts for 0.7 per cent German GDP growth.

Moreover, with the Dutch guilder firmly pegged to the D-Mark, there is little scope for currency appreciation on economic outperformance.

Meanwhile, the inflation gap between the two countries, which has helped boost the Dutch market, is widely expected to narrow to around 0.5 per cent next year, implying that Dutch yields will move back into line with Germany's.

Dutch inflation in August was 2.0 per cent, compared with Germany's 4.2 per cent. A Dutch September inflation number clearly below 2 per cent is expected to be released this week; in Germany, the September rate was 4.0 per cent.

The Dutch elections, expected in May, could also cause temporary volatility, although most observers feel that, whichever party wins, the country's commitment to running a tight fiscal policy will remain on course.

Conner Middelmann

US MONEY AND CREDIT

Employment report kicks bond market back into life

THE US BOND market, which has been trapped in a narrow trading range recently, has needed something to kick-start it back into life in the past couple of weeks. That something arrived last Friday in the shape of the September employment report.

The monthly jobs data sparked a strong rally in Treasury prices, with particularly heavy buying by retail investors. By the day's end, the 30-year bond had climbed by 1¼ points, and the yield had dropped from near 6 per cent to 5.917 per cent – close to its historic low.

At first glance, the bond market's reaction looked grossly overdone. The main figures – non-farm payrolls up 156,000 and the national unemployment rate steady at 6.7 per cent – were right in line with expectations. Traders and investors, however, quickly looked beyond the headline numbers and found plenty to get excited about.

Among the data that lifted the bond market's spirits were: yet another fall in manufacturing jobs; a flat manufacturing work-week; a lower overall average work-week; no wage inflation; and a revision that showed an even bigger decline than previously reported in August non-farm payrolls.

Much of the overall increase in payrolls was accounted for by a big increase in government hirings, which rose by 71,000.

Taken together, the figures told a familiar story. The economy continues to grow slowly, creating new jobs at a subnormal pace, and lack of growth in the labour market should help keep a lid on inflation.

All of this is clearly positive for bonds, which explains why prices took off on Friday. The data should also ensure that Federal Reserve policy will remain on hold for at least another few months.

The chances that monetary policy will not be tightened soon has also been boosted by the news that the Fed's most well known anti-inflation "hawk", governor Wayne Angell, is leaving the Federal Reserve Board at the end of this year.

As brokerage house Donaldson Lufkin & Jenrette commented: "With his departure, there will be one less member of the FOMC [the Fed's policy-making Open Market Committee] fighting against the grain."

DLJ also noted that the FOMC has a new member, in the form of Mr William McDonough, who took over the helm at the New York Fed a few months ago.

The brokerage house says that recent comments by McDonough suggest he is concerned by the economy's poor performance, but satisfied with current levels of inflation.

Angell's departure and McDonough's arrival can only shift the balance of power at the Fed further in favour of those who are more worried by the lack of economic growth than any possibility of a resurgence in inflation.

This week's producer and consumer prices data for September should be a reminder of how non-threatening inflation is today.

So far this year, consumer prices have risen at an annual rate of 2.8 per cent (down from 3.0 per cent last year) and producer prices at a rate of just 0.6 per cent (down from 2.1 per cent last year).

Wall Street is expecting more of the same when the figures are released on Thursday and Friday. Analysts forecast that producer prices will have risen by about 0.3 per cent last month and consumer prices by about 0.2 per cent.

If the numbers come in no higher than forecast, then bond prices could post fresh gains, sending long-dated yields down to new lows, and possibly even below 5.9 per cent for the first time.

● The US bond market will be closed today because of the Columbus Day holiday.

Patrick Harverson

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS · SWISS FRANC STRAIGHTS · YEN STRAIGHTS · FLOATING RATE NOTES · LUXFR STRAIGHTS · GUILDER STRAIGHTS · CANADIAN DOLLAR STRAIGHTS · ECU STRAIGHTS · AUSTRALIAN DOLLAR STRAIGHTS · STERLING STRAIGHTS · CONVERTIBLE BONDS · NEW ZEALAND DOLLAR STRAIGHTS · FRENCH FRANC STRAIGHTS · DEUTSCHE MARK STRAIGHTS · EQUITY WARRANTS

Closing prices on October 8

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

THE WEEK AHEAD

ECONOMICS

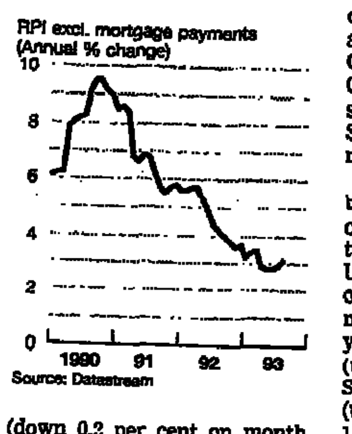
UK recovery back in the spotlight

A RUSH OF figures from the UK this week may, if good, quell misgivings about the strength of the recovery, with data on inflation, output, unemployment and retail sales expected.

The retail price inflation figures will be awaited with particular apprehension following August's surprisingly sharp increase. Many analysts have promoted the view that inflation in the UK is "dead" and were shocked to see the headline rate leap from 1.4 per cent to 1.7 per cent. Underlying inflation – which excludes mortgage interest payments – rose from 2.9 per cent to 3.1 per cent.

UK inflation

RPI excl. mortgage payments (Annual % change)



Source: Datastream

Forecasts for manufacturing output are modestly upbeat, and analysts expect unemployment to remain where it is - 10.4 per cent of the workforce.

This is also a busy week for statistics in the US. Economists will be looking to see whether figures for retail sales, initial claims, industrial production and trade figures confirm the gloomy picture of the economy highlighted in last week's non-farm payroll figures.

Today: US, Columbus Day - Treasury market closed.

Japan, National holiday – markets closed. Yeltsin makes first official visit to Japan.

France, September CPI (up 0.2 per cent on month, up 2 per cent on year).

UK, September PPI input (down 0.2 per cent on month, up 6 per cent on year), output (up 0.2 per cent on month, up 4.4 per cent on year), excluding food, drink and tobacco (up 2.7 per cent on year).

Norway, September CPI (up 0.5 per cent on month, up 2.2 per cent on year).

Tomorrow: US, Federal governor Lindsey addresses Industrial Bankers Association in Washington. Johnson Redbook week ended October 9.

Japan, August machine orders (down 1.1 per cent on month, down 13.8 per cent on year).

Germany, publication date of German constitutional court decision on Maastricht announced in Karlsberg. IG Metal Management Board meeting in Frankfurt to discuss 1994 pay claims.

UK, monthly monetary report. Panel of economic advisers – seven wise men – meet chancellor. Chancellor addresses annual banquet of Worshipful Company of Glovers.

Canada, August department store sales.

Sweden, Nobel prize for economics awarded.

Wednesday: US, Greenspan testifies before House Banking on Federal accountability. September Atlanta Fed Index.

UK, August manufacturing output (up 0.4 per cent on month, up 1.8 per cent on year), industrial production (up 0.4 per cent on month). September retail prices index (up 0.3 per cent on month, up 1.7 per cent on year), excluding mortgage interest payments (up 3.1 per cent on year).

Spain, September CPI (up 0.5 per cent on month, up 4.3 per cent on year).

Thursday: US, September retail sales (up 0.5 per cent), excluding cars (up 0.6 per cent), producer prices index (up 0.2 per cent), excluding food and energy (up 0.2 per cent). Initial claims week ended October 9 (325,000). State benefits week ended October 2. Car and truck sales 1-10 October. Money supply data for week ended October 4. September money supply.

UK, September unemployment (no change). August average earnings (3.5 per cent), unit wage costs (down 1 per cent in latest three months).

Canada, September leading indicator (up 0.3 per cent on year). August wage settlement increases (up 1 per cent).

Sweden, September CPI (up 0.9 per cent on month, up 4.2 per cent on year).

Friday: US, September CPI (up 0.2 per cent), excluding food and energy (up 0.2 per cent). August merchandise trade ($10.5bn deficit), exports ($37.9bn), imports ($48bn), industrial production (up 0.2 per cent), capacity utilisation (81.8 per cent). October preliminary Michigan sentiment. August business inventory (up 0.3 per cent). September real earnings.

Japan, September CPI (up 0.2 per cent on month, down 3.5 per cent on year).

Canada, August merchandise exports (up 1.2 per cent on month), imports (up 0.7 per cent), merchandise trade surplus ($1.1bn).

Korea, North-South Korean talks.

During the week: Germany, September cost of living. August retail sales (down 2.2 per cent on year), September WPI (flat on month).

Spain, September unemployment rate (16.5 per cent), September M4.

Netherlands, May trade balance.

Denmark, September CPI (up 0.4 per cent on month, up 1.3 per cent on year). August unemployment rate (12.3 per cent).

Emma Tucker

RESULTS DUE

ANALYSTS ARE today expecting annual pre-tax profits of about £40m to £50m from Lucas Industries, the motor components and aerospace group, compared with £22.5m last time. This year's total will be enhanced by about £12m of disposal profits. Trading continues to be tough and some fear the dividend may be cut.

Interim results to the end of August from natural cosmetics and toiletries retailer Body Shop on Thursday are expected to show pre-tax profits of £9m to £9.3m, against £8.3m last time. The UK is still likely to be depressed compared with a relatively good first half last year.

The US contribution will be affected by currency translation, although stores in the region are expected to have traded well. Elsewhere sales growth is expected to have been sustained. A lower interest charge is also predicted.

Highland Distilleries is expected to report full year pre-tax profits today of about £39m, including £10m from the change to equity accounting of its 35 per cent stake in Robertson & Baxter, the whisky distiller. At the trading level, profits are likely to show a near 10 per cent increase to £24m with continuing benefits coming from Remy Cointreau's distribution of Highland's Famous Grouse whisky.

Tomorrow St Ives, the UK's largest independent printer, is expected to report full-year pre-tax profits of about £22m, slightly ahead of last year's £21.1m. The results will be the first since Mr Miles Emley took over as chairman from Mr Robert Gavron.

UK COMPANIES

■ TODAY
BOARD MEETINGS:
Finals:
Highland
Hong Kong Inv.
Lucas Inds.
Peratorp
Scottish Asian Inv. Co.
Tay Homes
Interims:
Aminex
Eurotunnel
Ryan Hotels

■ TOMORROW
COMPANY MEETINGS:
Fleming Overseas Inv. Tst., 25 Copthall Avenue, E.C., 12.00
Howard Hldgs., Kingston Lodge Hotel, Kingston Hill, Kingston Upon Thames, Surrey, 10.30
BOARD MEETINGS:
Finals:
Exmoor Dual Inv. Inv.
St. Ives
Sinclair (William) Hldgs.
Town Centre
Interims:
Boxmore Intl.
Clinton Cards
Derwent Valley Hldgs.
FR Grp.
Ross Grp.
Tie Rack

■ WEDNESDAY OCTOBER 13
COMPANY MEETINGS:
Macro 4, The City Cellars, The Brewery, Chiswell St., E.C. 12.00
BOARD MEETINGS:
Finals:
Attwoods
Goodhead
Interims:
Brown (N.)
Delyn Grp.
Densitron Intl.
Seton Healthcare

■ THURSDAY OCTOBER 14
COMPANY MEETINGS:
Armitage Brothers, Armitage House, Colwick, Nottingham, 11.00
Bredero Properties, 23 Great Winchester Street, E.C. 12.00
Jones, Stroud Hldgs., The Donington Thistle Hotel, East Midlands Airport, Castle Donington, Derby, 12.00
BOARD MEETINGS:
Finals:
Maunders (John)
Wetherspoon (J.D.)
Interims:
BNB Resources
Barlows
Body Shop
Chepstow Racecourse
El Oro Mining
Exploration Co.
Hunting
Jackson Grp.
Quadrant
Sindall (William)
Tudor

■ FRIDAY OCTOBER 15
COMPANY MEETINGS:
Brasway, All Saints Church Hall, Darlaston, West Midlands, 11.30
CRP Leisure, 16 Lincoln's Inn Fields, W.C. 12.00
N.M.C. Grp., Honourable Artillery Co., City Road, E.C. 4.00
Stanelco, Oliver House, 27 East Barnet Road, New Barnet, Herts., 10.30
BOARD MEETINGS:
Interims:
Baring Stratton Inv. Tst.
Brooks Service
Craig & Rose
Farnell Electronics
Fleming Inc. & Cap. Inv. Tst.
Jakarta Fund (Cayman)

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey National 4.15p
Admiral 2p
Banco Bilbao Vizcaya Pta38
Barclays 8.5p
Border Television 2p
City Centre Restaurants 0.45p
Collateralised Mortgage Securities (No.11) Class B Mtg. Backed Flg. Rate Nts. 2028 £198.92
European Bank for Reconstruction & Development 8.875% 1996 Ecu887.50
European Motor 2p
Gardiner 0.23p
Islington Corp. 12.65% Rd. 2007 £6.325
Manitoba (Province of) 12¼% Dbs. 1994 $825
Marling Inds. 0.65p
Nationwide Bldg. Society Varied Coupon Nts. 1995 £83,371.58
OKI Electric Industry Co. 7.25% 1998 Y725,000
Rathbone Bros. 2p
Scottish Power ADR $1.404
Tomkins 4.545p
United Kingdom 10% Cnv. 2002 £5
Warnford Investments 4.75p

■ TOMORROW
Ireland (Rep. of) 12½% 2008 £312.50
Kobe Steel Flg. Rate Nts. 1996 Y91,041
Macfarlane (Clansman) 1.44p
Morris (Philip) $0.65
News Corp. A$0.15
News International Special Dividend 0.668p
RJB Mining 5p
Scottish Eastern Inv. Tst. 0.52p

■ WEDNESDAY OCTOBER 13
Automated Security (Hldgs.) 3.05p
Bradford & Bingley Bldg. Society Flg. Rate Nts. 1997 £153.25
Do. Flg. Rate Nts. 1998 £154.38
Britannia Bldg. Society Flg. Rate Nts. 1993 £154.38
British Columbia Hydro & Power Authority 11¾% 1993 $117.50
Central American Bank for Economic Integration Flg. Rate Serial Nts. 1994 $28.47
Commercial Union 15.1p
Hewlett-Packard $0.25
Hong Kong & Shanghai Banking Corp. Primary Cap. Undated Flg. Rate Nts. $43.92
Marine Midland Finance Gtd. Flg. Rate Sub. 1994 $13.42
National Australia Bank Undated Sub. Flg. Rate Nts. $179.19
Southern Electric 14p
Telegraph (The) 5.5p
Unitas Var. Rate Sub. Nts. 2000 $97.43
United Kingdom 9% Treas. Ln. 2008 £4.50
Waco 1p

■ THURSDAY OCTOBER 14
Australia (Commonwealth of) 9¼% 2012 £237.50
B.A.T. Inds. 7.9p
Bletchley Motor 4.75p
Bournemouth Water 29p
CMI Managed Portfolio Inv. Co. Growth Portfolio 0.90355p
Do. Safeguard Portfolio 2.43214p
Eurotherm 3.5p
Jones, Stroud (Hldgs.) 5.5p
Lloyds Bank 6.6p
Mallett 0.5p
Slough Estates 3.1p
Spear (J.W.) & Sons 3p
Trans World Communications 0.3p
West Hampshire Water 16p
Do. Non Vtg 16p

■ FRIDAY OCTOBER 15
Abbott Laboratories $0.17
Aegon 7¼% 1995 Ecu72.50
Alexander & Alexander Services 11% Cv. Sub. Dbs. 2007 $5.50
American Brands 12½% Un. Ln. 2009 £6.25
American Tst. 1.8p
Anglo American Industrial Corp. R1.10
Armitage Brothers 3.6p
BCE C$0.66
Bradford & Bingley Bldg. Society Flg. Rate Nts. 1999 £152.81
British Assets Trust 4½% Pf. 1.575p
Do. 5% "A" Pf. 1.75p
Canadian Pacific Retractable Dbs. 1990/99 $125
Chrysler Corp. $0.15
Cleveland Place 6% Rd. Pf. 1989/94 £3
Courts (Furnishers) 3.67p
Cowie (T.) 2.35p
Eldridge, Pope & Co. 8¼% Irred. Un. Ln. £3.125
Do. 7½% Irred. Un. Ln. £3.75
Ellis & Everard 4.8p
Evans Halshaw 3.8p
Finland (Rep. of) 11½% Ln. 2009 £287.50
Genbel Investments R0.21
Goode Durrant 3.5% Cm. Pf. 0.875p
Govett Strategic Inv. Tst. 9⅞% Db. 2017 £4.9375
Halifax Bldg. Society Flg. Rate Nts. 1995 £152.81
Kawasaki Heavy Inds. 6% Nts. 1997 Y600,000
Do. 6.15% Nts. 1999 Y615,000
Manders 5% Cm. Pf. 1.75p
Merton (Borough of) 11¼% Rd. 2017 £5.625
Metropolitan Water Board Southwark & Vauxhall Water Co. 3% Db. £1.50
Middle Witwatersrand R0.056
Morgan (J.P. & Co.) $0.60
Motorola $0.11
National Westminster Bank 6.4p
Occidental Petroleum $0.25
OIS Intl. Inspection 0.7p
Pacific Gas & Electric $0.47
Quaker Oats $0.53
Richardsons Westgarth 1.3p
Richards 4% Cm. Pf. 1.4p
Do. 5¼% Cm. Pf. 1.44375p
Rosebys 1.4p
Royal Tst. Gov. Secs. Fd. Income Ptg. Rd. Pf. 1.1p
Saker's Finance & Investment R0.05
Sindall (William) 5.625% Cv. Cm. Rd. Pf. 2.8125p
Smithkline Beecham "A" 2.533p
Smithkline Beecham/Smithkline Beckman Equity Units $0.04756
Do. ADR $0.2378
3i Intl. 10¾% Gtd. Bds. 1993 $537.50
TI Grp. 3.65p
US Smaller Co's Inv. Tst. 0.3p
Wereldhave Property Corp. 9.5% 1st Mtg. Db. 2015 £4.75
Do. 10.75% 1st Mtg. Db. 2015 £5.375

■ SATURDAY OCTOBER 16
Swansea (City of) 13¾% Rd. 2006 £6.875
United Kingdom 2½% Index-Linked Treas. 2020 £2.0912

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close October 8

Quotations in cents unless marked $

MONTREAL

4 pm close October 8

INDICES

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Am Exp Note	4,514,500	36⅞	–
Detroit Die	4,391,400	25⅞	..
Adv Micro	3,148,300	20½	- ¼
Phillip Morris	2,652,100	48¼	+ 1⅛
Wal-Mart	2,416,400	26½	- ¼
Tiphook Pl	2,132,600	6¼	- ⅛
Fed Dept St	2,039,100	18⅝	+ ½
US Surgica	2,032,700	23¾	- ⅞
Corning	2,027,200	27⅝	+ ¼
Chrysler	1,945,600	48⅛	- 1⅛

TRADING ACTIVITY

† Volume (Millions)	Oct 8	Oct 7	Oct 6
New York SE	243.251	254.772	275.766
Amex	17.204	16.229	21.002
NASDAQ	(u)	294.186	297.945
NYSE			
Issues Traded	2,609	2,617	2,626
Rises	1,112	836	1,111
Falls	823	1,107	864
Unchanged	674	674	651
New Highs	122	108	145
New Lows	24	25	24

CANADA

TORONTO	Oct 8	Oct 7	Oct 6	Oct 5	1993 HIGH	1993 LOW
Metals & Minerals	2914.56	2927.74♦	2897.14	2870.20	3140.94 (16/8)	2743.31 (21/1)
Composite	4087.30	4060.79	4055.48	4014.11	4143.70 (1/9)	3275.80 (21/1)
MONTREAL Portfolio	1916.94	1918.55	1903.66	1884.82	1963.55 (1/9)	1720.97 (21/1)

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♠ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. ♦ Correction.

	Oct 8	Oct 7	Oct 6	Oct 5	1993 HIGH	1993 LOW
NORWAY						
Oslo SE (Ind) (2/1/83)	968.61	967.21	967.25	943.63	979.17 (13/8)	668.93 (27/1)
PHILIPPINES						
Manila Comp (2/1/85)	1982.72	1961.04	1948.69	1951.06	1996.37 (17/9)	1270.68 (4/1)
SINGAPORE						
SES All-Singapore (2/4/75)	532.12	533.75	532.8	530.9	533.75 (7/10)	394.10 (13/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1674.0♥	1606.0	1528.0	1483.0	2098.00 (30/7)	775.00 (5/1)
JSE Industrial (28/9/78)	4504.0♥	4481.0	4463.0	4418.0	4719.00 (6/7)	4333.00 (19/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	714.58	717.82	716.90	717.71	777.25 (9/8)	605.93 (6/3)
SPAIN						
Madrid SE (30/12/85)	292.58	291.08	291.51	289.04	304.68 (30/8)	215.80 (4/1)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	1346.30	1337.30	1327.0	1325.70	1346.30 (8/10)	879.10 (28/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	1088.79	1089.59	1092.47	1087.77	1092.47 (6/10)	904.80 (11/1)
SBC General (1/4/87)	867.97	865.53	864.62	860.03	867.97 (8/10)	678.70 (11/1)
TAIWAN**						
Weighted Price (30/6/66)	3863.19	3894.94	3814.62	3813.26	5013.28 (7/4)	3088.43 (9/1)
THAILAND						
Bangkok SET (30/4/75)	1098.64	1088.52	1058.24	1019.45	1098.64 (8/10)	818.64 (1/6)
WORLD						
M.S. Capital Intl.(1/1/70) $	603.2*	599.9	601.3	597.5	605.20 (8/9)	488.60 (13/1)
Euro Top-100 (26/6/90)	1133.44	1130.57	1132.15	1125.34	1133.44 (8/10)	862.73 (13/1)

**Saturday October 2: Taiwan Weighted Price: 3809.66, Korea Comp Ex: 719.55.
♥ Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000. JSE Gold - 255.7, JSE 20 Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Friday, October 8, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fujitsu	7.0m	861	+5	Mitsubishi Motor	2.8m	839	+7
Mitsubishi Heavy	4.7m	689	+17	Nippon Yusen KK	2.5m	626	+8
Nippon Steel	4.3m	339	-5	Fujikura	2.4m	908	+27
Isuzu Motor	3.4m	417	-5	Tokyo Elec Power	2.4m	3,550	+80
Tokyo Gas	3.0m	597	+5	Nissan Motor	2.4m	763	-4

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

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	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Stewart Ivory Unit Tst Mgrs Ltd (1200)F						
45 Charlotte Sq, Edinburgh 031-226 3271						
American ♥	5	352.7	352.7	376.6	0.33	[illegible]
(Accum Units) ♥	5	415.8	415.8	444.0	0.33	[illegible]
British	5	1007.5	1007.5xd	1069.9	3.37	[illegible]
(Accum Units)	5	1799.4	1799.4	1903.7	3.37	[illegible]
Emerging Markets	5	119.2	119.9	127.7	0.20	[illegible]
(Accum Units)	5	119.4	120.1	128.0	0.20	[illegible]
European	5	429.6	429.6	457.3	1.24	[illegible]
(Accum Units)	5	476.4	476.4	507.1	1.24	[illegible]
Japan	5	164.9	164.9	175.0	-	[illegible]
(Accum Units)	5	166.2	166.2	178.4	-	[illegible]
New Pacific	5	330.5	333.1	354.7	0.32	[illegible]
(Accum Units)	5	346.4	349.1	371.7	0.82	[illegible]
Investment Tst	5	205.1	207.1	219.5	1.61	[illegible]
(Accum Units)	5	230.9	233.2	247.2	1.61	[illegible]
Mngd Equity	5	161.7	163.6	173.1	1.45	[illegible]
Mngd Equity Acc	5	177.2	179.3	189.7	1.45	[illegible]
Mngd Cash	0	95.47	95.47xd	95.47	5.07	[illegible]
(Accum Units)	0	129.4	129.4	129.4	5.07	[illegible]
Minority Stg	1	99.65	99.65xd	100.65	4.78	[illegible]
Minority Stg Acc	1	119.38	119.38	120.58	4.78	[illegible]
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries 0277 227300 Dealing 0277 690390						
Equity	6	784.7	784.7	839.3	2.73	[illegible]
North America	6	123.4	123.4	132.0	0.04	[illegible]
Far East	6	140.0	140.0	149.7	0.22	[illegible]
W'wide Bond	6	62.44	62.44xd	66.28	5.24	[illegible]
European	6	93.18	93.18xd	99.66	0.79	[illegible]
Equity Income	6	90.89	91.57	97.94	3.77	[illegible]
Portfolio	5	81.16	81.16	86.80	0.81	[illegible]
UK Leading Cos	6	56.09	56.68	60.28	2.77	[illegible]
Broker Trusts						
Intnl Equity	6	62.63	63.08	67.46	-	[illegible]
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingview, Basingstoke Hants 0800 525725						
American Growth	6	33.68	33.74xd	36.09	0.58	[illegible]
Managed Assets	6	125.85	126.50	135.30	2.65	[illegible]
UK Income	6	39.38	39.70	42.47	2.84	[illegible]
UK Growth	6	37.82	38.17xd	40.83	2.10	[illegible]
Worldwide Growth	6	32.81	32.94xd	35.24	0.55	[illegible]
Sun Life Trust Mngmt Ltd (1200)H						
101, Cannon St, London EC4N 5AD						
Admin & Enq 071-606 4044 Dealing 071-606 6010						
Master Portfolio	5¼	45.43	45.43xd	48.59	0.44	[illegible]
Amer Growth Acc	5¼	57.66	57.66	61.67	-	[illegible]
Cap Protector Acc	5¼	49.33	50.01xd	53.49	2.51	[illegible]
Cap Protector Inc	5¼	40.93	41.50xd	44.38	2.51	[illegible]
Euro Growth Acc	5¼	80.92	80.92	86.31	0.49	[illegible]
Far East Gwth Acc	5¼	129.35	129.35	138.34	-	[illegible]
Japan Growth Acc	5¼	119.11	119.11xd	[illegible]	-	[illegible]
UK Growth Acc	5¼	73.32	73.32	78.42	1.74	[illegible]
UK Income Acc	5¼	74.55	74.55	79.73	2.99	[illegible]
UK Income Inc	5¼	52.33	52.33	55.97	2.99	[illegible]
Mngd Extra Income Inc	5¼	32.35	32.35xd	34.59	3.59	[illegible]
Mngd Extra Income Acc	5¼	36.56	36.56xd	39.09	3.59	[illegible]
Mngd Growth Acc	5¼	89.91	89.91	96.18	0.74	[illegible]

	Bid Price	Offer Price	Yield Gross	City-Line
Lazard Brothers & Co. Ltd				
Property Oct 7	£2125	2275	7.00	40777
Inc Gth Prp Jul 12	£1440.0	1600.8	8.80	40778
Lazard Investors Ltd ‡				
Exempt Funds				
Small Co's Oct 6	£5560.1	5773.5	2.29	40766
European Oct 6	£781.0	738.8	1.40	40776
American Oct 6	£441.1	445.7	1.39	40773
Japan Oct 6	£813.1	820.9	0.49	40774
Pacific Oct 6	£219.5	223.6	0.78	40775
Midland Gth Aug 31	£131.90	143.30	3.7	40771
Local Authorities Mutual Invest. Tst.*				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Property Sep 30	180.30	190.55	8.31	40825
Equity Sep 30	1075.50	1106.0	3.78	40826
* Available only to Local Authorities				
M & G Securities Ltd				
Charibond (z)	118.85		9.08	40883
(Accum Units)	834.88		9.08	40884
NAACIF (z)	49.65		6.8	46917
Morgan Grenfell Investment Funds Ltd				
Exempt Funds				
UK Equity † Oct 5	180.3	185.2	2.36	46925
UK Small Co † Oct 5	640.3	667.3	2.84	46926
Fixed Interest † Oct 5	130.6	131.5	8.71	46920
Intl Bond Oct 5	147.3	148.7	7.89	47790
Morgan Stanley International				
UK Exempt NAV	£1492.95		-	44675
Overseas Exempt NAV	£1417.60		-	44576
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
American Exempt	66.67	68.23	1.20	41064
European Exempt	60.27	62.14	2.25	41065
Fixed Int Ex Oct 6	54.30	54.83	7.68	46594
Japan Exempt	61.44	63.35	0.70	41066
Managed Ex Oct 6	57.50	59.04xd	2.93	41067
SE Asia Exempt	129.90	135.70xd	1.88	41068
Sm Cos Expt Oct 6	45.72	48.00	2.63	41069
UK Eqty Ex Oct 6	49.17	51.02	3.66	41070
NatWest Investment Management Ltd				
Smaller Cos Aug 20	6025	6330	3.37	-
PDFM Unit Managers Ltd				
Small Co's Oct 6	871.33	900.79xd	2.82	41138
Do Accum	1058.99	1094.78	2.82	41139
Int Expt Oct 7	258.32	263.53xd	1.72	41140
UK Index Oct 6	1460.85	1478.76xd	3.75	46945
Do Accum	1710.01	1731.22	3.75	46946
Convertible Oct 1	119.56	121.79xd	6.80	46938
World ex UK Index Oct 5	1082.19	1092.09	1.75	47887
Do Accum	1082.19	1092.09	1.75	47888
Japan Index Oct 5	800.41	807.93	0.50	47881
Do Accum	807.14	814.72	0.50	47882
USA Index Oct 5	1334.41	1371.48	2.47	47885
Do Accum	1479.01	1482.55	2.47	47886

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

Prudential Assurance Co

Prudential Corporate Pension Funds

Scottish Amicable - Contd.

Scottish Equitable Life Assce. Soc.

Sun Alliance Group - Contd.

Albany International Assurance Ltd - Contd.

Allied Dunbar International Assurance Ltd

Royal Skandia Life Assurance Ltd - Contd.

Equitable International Fund Managers Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Merrill Lynch Guernsey

Nikko Capital Mngt (Europe) Ltd

GT Asset Management (Ireland) Ltd

Gaiacorp Ireland Limited

Genesis Portfolio Managers Limited

Hambros Fund Managers (Ireland) Ltd

MANAGEMENT SERVICES

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

IRELAND (REGULATED)(**)

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Albany International Assurance Ltd

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

Gartmore Fund Mngrs Intl Ltd - Contd.

Bank Von Ernst & Cie AG

Marktgasse 63/65 3001 Berne, Switzerland 31224051

INVESCO International Limited - Contd.

Alliance Capital - Contd.

	Bid Price	Offer Price	Yield Gross	City-Line
Spanish Smaller Cos	$08.58	-	-	44578
Spanish Smaller Cos	Pta1124	-	-	-

*Offer price depends on jurisdiction

Asian Development Equity Fund

	Bid Price	Offer Price	Yield Gross	City-Line
Portfolio A Oct 8	$23.84		-	42869
Portfolio B	$18.78		-	44688

Atlantas Sicav

	Bid Price	Offer Price	Yield Gross	City-Line
American Dynamic Oct 5	$747.17		-	46073
American One Oct 5	$887.93		-	46079
Bond Global Oct 5	DM783.06		-	46095
Eurocroissance Oct 5	DM429.37		-	46105
Far East Oct 5	Y37150.30		-	46128

NICAM Asia Pacific Umbrella Fund

	Bid Price	Offer Price	Yield Gross	City-Line
Asia-Pacific	$12.21	12.47	-	-
Hong Kong	$11.54	11.78	-	-
Singapore	$12.56	12.82	-	-
Malaysia	$13.68	13.98	-	-
Thailand	$11.89	12.15	-	-
Indonesia	$12.80	13.06	-	-
Philippines	$11.32	11.56	-	-
Oceania	$10.00	10.22	-	-

*Price as at October 6

Nikko Bank (Luxembourg) S.A.

Butterfield Management Co Ltd

CA Securities Investment Fund Mangt Ltd

CDC International

Group One International Tst

Hasenbichler Asset Management GmbH

Pacific Growth Fund

	Bid Price	Offer Price	Yield Gross	City-Line
NAV	$18.85		-	45529

Pakistan Fund

Pequot International Fund Inc

	Bid Price	Offer Price	Yield Gross	City-Line
NAV Sep 3	$192.19		-	-

Philippine Income Fund Inc

	Bid Price	Offer Price	Yield Gross	City-Line
NAV Oct 8	$10.39		-	-

Portuguese Investment Fund Ltd

Putnam International Advisers Ltd

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

EMU under scrutiny

THE future of European currency policy hangs in the balance this week as Germany deliberates on the Maastricht Treaty on European Union. Concentration on the implications for currency are likely to come to the fore as the impact of disappointing US job figures is taken on board.

Barring unforeseen dramas the German constitutional court will tomorrow rule on whether Maastricht conforms with the country's basic law.

UK clearing bank base lending rate
6 per cent
from January 26 1993

The most damning ruling would be for no move to Economic Monetary Union (EMU) without some form of vote. As opinion polls suggest more than 70 per cent of voters would oppose abolition of the D-Mark, a test of Maastricht at the polls would probably end German participation in EMU.

Mr Paul Chertkow, currency analyst at UBS, said: "If the court votes no, convergence goes out the window. Countries with high unemployment and low inflation would have to cut and run on the UK model. There would be no anchor and currencies would be assessed on their fundamental value."

It is more likely that the court will ratify the Treaty but attach strings. This could prompt heavy selling of the Ecu and affect its constituent parts, the main currencies in the exchange rate mechanism.

The potential impact of an adverse German decision was overshadowed by tension surrounding US. employment data for September. When the figures came in on Friday they matched most forecasts but the make-up suggested any hopes for US recovery were premature. Heavy dollar selling was compounded by expiry of dollar/D-Mark options expiry and sent the US currency sharply lower against leading currencies.

Worries about the US economy are likely to be compounded by flat consumer and producer price statistics this week.

£ IN NEW YORK

Oct 8	Close	Previous Close
£ Spot	1.5340-1.5350	1.5225 1.5235
1 month	0.37-0.36pm	0.37 0.36pm
3 months	0.97-0.94pm	1.78 1.73pm
12 months	3.20-3.10pm	3.13 3.03pm

Forward premiums and discounts apply to the US dollar

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

OTHER CURRENCIES

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

BASE LENDING RATES

STOCK INDICES

	Oct 8	Oct 7	Oct 6	Oct 5	Oct 4	Oct 1	1993 High	1993 Low	Since Compilation High	Since Compilation Low
FT-SE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-A All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Eurotrack 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Eurotrack 200	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Ordinary	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Government Secs.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Fixed Interest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Gold Mines	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

OTHER FIXED INTEREST

Continued on next page

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICALS - Cont.

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Bakyrchik (Mines/Misc.) and Redaurum Red Lake (Mines/Diamond & Plat.). Deletes: Harrison (Bldg. Mats.), Manchester Ship (Transport)and New Throgmorton Warrants (Inv. Tst.).

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An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

4 pm close October 8

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	11½	AAR Corp	0.48	3.6	688	157	13⅜	13⅛	13⅛	-¼
28⅞	13¾	A L Labs A	0.18	1.0	35	282	17⅞	17½	17½	-½
67¼	64⅝	AMP Inc	1.60	2.5	22	1364	64⅞	64⅝	64⅝	
72¾	55½	AMR			16	4088	64½	63¼	63⅞	-⅛
3⅞	1¾	ARX			13	346	u3⅞	3⅝	3⅝	+⅛
51½	29⅞	ASA	2.00	4.4	30	825	45⅝	45⅛	45½	+½
30¾	22⅝	Abbott Lab	0.68	2.6	18	12611	26¾	25⅝	26¾	-⅛
12⅝	8¼	Abitibi Pr	0.50	5.9	3	15	8½	8½	8½	
15¼	8¼	Acpincatn			48	850	u15⅝	15	15⅝	+⅞
36	25½	ACE Ltd	0.92	2.8		890	33¼	33	33¼	+¼
12	10¾	ACM Gvt In	0.98	8.4		232	11⅞	11¼	11⅝	+⅛
10	9⅛	ACM GvOpp x	0.80	8.1		15	u10	9⅞	9⅞	
9⅞	8¾	ACM Gvt Sp x	0.80	8.2		135	9¾	9⅝	9¾	
11⅝	10½	ACM Gvt Se x	0.96	8.3		411	11½	11⅜	11½	
11⅝	9⅝	ACM Man x	1.08	9.3		144	u11⅝	11½	11⅝	+⅛
9⅞	8⅝	ACM Marago x	0.72	7.8		160	9¼	9⅛	9¼	
12⅞	7¾	Acme Cleve	0.44	4.6	12	50	9½	9⅜	9½	+⅛
9¼	6⅜	Acme Elect			48	314	6⅞	6½	6¾	+⅛
27⅝	18⅞	Acordia	0.44	1.7	15	134	26	25¾	26	+⅛
16	10⅛	Acuson			33	171	12⅛	12	12	-⅛
21¾	18¼	Adams Expr	0.48	2.5	0	160	19	18⅞	18⅞	-⅛
66¼	45½	Ad Micro	3.00	6.0		1238	51	49¾	50	-⅝
32¾	17⅞	Ad Micro P	3.00	14.6	7	24594	21¼	20	20½	-¼
7⅞	5½	Advest Grp	0.16	2.3	12	9	7	6⅞	7	+⅛
24¾	15¼	Aetna Inc	0.08	0.5	16	306	15⅛	d14⅝	14⅞	-½
50¼	41⅛	Aegon ADR	1.23	2.5	10	667	u50⅝	50	50	-⅛
61¾	43⅞	Aetna Lf	2.76	4.5	43	4068	u62⅛	61¼	61½	+⅛
34	26⅛	Aflac	0.40	1.3	15	488	31⅞	31⅜	31¾	+⅛
22⅛	15⅛	Ahmanson	0.88	4.6	8	3847	19⅝	19⅛	19¼	
7¾	3⅝	Aileen Inc			5	80	3⅞	3¾	3¾	-⅛
48½	24⅞	Air Pr Chem	0.92	2.4	15	1988	39½	38½	39⅛	+⅝
26½	18⅛	Airborne Frt	0.30	1.2	32	410	24⅝	24½	24½	

4 pm close October 8

NYSE COMPOSITE PRICES

Continued from previous page

- S -

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22	15½	S Anita Rt x	1.38	7.1	17	70	19⅜	18⅞	19¼	
20¾	14⅞	SCOR US Cp	0.32	1 9207		50	16⅝	16⅝	16⅝	
29¾	30	SPS Techno	1.28	4.6	20	74	28¼	28	28	-¼
15¼	12⅞	Sabine Rt x	1.74	17.4	10	44	u15¼	15¼	15¼	+1⅞
14	8⅞	Safecard	0.20	1.5	13	203	13⅞	13⅝	13¾	-⅛
23½	16⅞	Safeg'd Sc			10	112	22⅛	21⅞	22	
24¼	14⅛	SafetyKln	0.36	2.5	22	3056	14¾	14⅛	14⅝	-⅛
19⅞	10⅞	Safeway			24	1769	u20½	20	20⅛	+¼
4½	2	SafewayW96				760	u4⅝	4½	4½	
55	37½	StJoePaper	0.20	0.4	144	197	49¼	48¾	49⅛	+⅜
37⅞	31	StJosL&P	1.76	4.9	14	5	36¼	36⅛	36⅛	-⅜
94	75	St Paul's	2.80	3.1	14	321	90⅞	89¾	90⅞	+⅝
11⅞	7½	Salant Crp			4	65	8	7⅞	8	+⅛
75¼	39⅞	Sallie Mae	1.30	2.8	10	1549	47	45½	46⅛	+½
14¾	13	Salomon Br	0.32	2.3		89	13⅞	13¾	13⅞	
51⅞	34	Salomonlnc	0.64	1.3	12	2345	48⅛	47⅛	48	+¾
27¾	23¾	SanDgo G&E	1.48	5.6	14	277	26⅜	26⅛	26⅜	+⅛
5	3½	SantaFeEDu	0.40	8.2	48	10	4⅞	4⅞	4⅞	
11⅞	9⅛	SantaFeERs	0.16	1.6	500	1025	10	9⅞	10	+⅛
40¾	35¾	SantaFePac	2.80	7.3	13	23	38¾	38⅜	38½	-⅛
19⅜	12¾	SantaFPac	0.10	0.5	12	3001	18⅞	18⅝	18⅞	+⅛
31⅛	21	Sara Lee	0.58	2.4	17	4593	24⅝	24⅛	24½	+⅛
51⅞	40⅛	Scana Corp	2.74	5.4	15	770	51	50¾	50⅞	
25¾	21½	Scecorp	1.42	6.3	14	9632	22¾	22¼	22⅝	+⅛
36⅞	23⅞	SchererRP			28	635	32⅞	32⅜	32½	
70⅞	51¾	ScheringPl	1.80	2.7	16	2766	66¾	65⅝	66¾	+⅛
68⅞	55¾	Sch'berger	1.20	1.8	25	3170	66⅛	65½	65½	-¼
38⅛	16½	Schwab(C)	0.20	0.6	20	2389	35⅞	34¼	35⅜	-⅝
7¾	5⅝	Schwitzer			43	12	7⅜	7⅜	7⅜	
37⅞	17¾	ScientAtln	0.12	0.4	51	1587	34½	33½	34	+½
13⅞	9⅛	Scotsman	0.10	0.9	12	48	11⅞	11¾	11¾	-⅛
41	31	ScottPaper	0.80	2.4	20	680	33⅝	33⅛	33⅛	-⅛
24	14¼	ScuddrNAsF	0.21	0.9		75	u24⅛	23⅝	23¾	-⅛
11⅛	7½	ScuddrNEuF	0.16	1.5		140	10⅝	10½	10⅝	
31½	16¾	SeaContB	0.70	3.7	6	z100	18¾	18¾	18¾	-⅛
17	15	SeaCT.4625	1.46	9.0		5	16¼	16¼	16¼	-¼
30⅜	24½	Seagram Co	0.56	2.2	17	1282	[illegible]	[illegible]	[illegible]	[illegible]

- T -

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote
9½	5¼	TCBY Enter	0.20	3.7	21	159	5½	d5¼	5⅜
40	27¾	TCF Financ	0.75	1.9	9	23	39⅝	39¼	39¾
10⅝	8¾	TCW Conv S x	0.84	8.5		286	10	9¾	9⅞
39	25⅝	TDK Corp A	0.41	1.2	29	32	36	35¾	36
3¾	2	T I S Mage	0.20	9.4	0	39	2⅛	d2	2⅛
34¼	24½	TJX Cos	0.50	1.5	21	4018	33⅜	32⅛	33⅜
19½	14⅝	TNP Enterp	1.63	8.7	22	31	18⅞	16⅝	16⅞
69⅝	52½	TRW Inc	1.88	2.9	19	680	66⅛	65⅛	65⅝
25⅞	5¼	T2 Medcl	0.10	1.4	4	3857	7⅞	7	7⅞
24¼	17⅛	Taiwan Fd				289	23⅛	22¾	23
8⅞	3⅛	Teleyind	0.42	4.9	33	544	u9	8⅝	8⅝
13⅞	6½	Talley Pf	1.00	7.1		20	u14½	13⅝	14⅛
65	39½	Tambrands	1.62	3.4	18	1386	44⅞	44⅛	44⅛
16⅝	8½	Tandem			2	3730	12⅞	12⅝	12⅝
39¼	24⅝	Tandy Corp	0.60	1.5	62	2980	u39⅞	38⅝	38¾
13½	12	Taurus Mun	0.81	6.3		16	12¾	12¾	12¾
25⅞	20¾	Taco Energ	0.96	3.8	18	713	25⅛	24⅞	25
27⅞	20⅛	Tektronix	0.60	2.6	12	633	22⅞	22⅝	22¾
5	1¼	Telecom Cp			16	102	2⅞	2⅝	2¾
27¾	18½	Teledyne	0.80	3.1	20	1333	26	25⅝	26
37⅞	29½	TeleEspSA	1.62	4.3	7	6347	u37¾	37⅝	37¾
59⅜	44⅞	Telmex ADR	0.96	1.9	10	14712	50½	50⅛	50⅜
52½	39	Templeinl	1.00	2.5	19	1351	39⅞	d38¾	39¾
24½	14⅞	TempltEmMk	0.39	1.7		544	22⅝	22⅜	22¾
9⅛	8¼	TempltGlob x	0.72	8.2		25	8¾	8⅝	8¾
9	7¾	TempltGIFd x	0.60	7.3		606	8¼	8⅛	8¼
54½	39⅛	Tenneco	1.60	3.0	31	1844	53¼	52½	53
28⅜	21¾	Teppco Pts	2.20	7.8	12	63	u28½	28⅛	28¼
29⅞	13	Teradyne			38	843	25⅝	25	25¼
11⅞	6¼	Terex	0.06	0.9	0	39	6⅝	6½	6⅝
5	3½	Terra Inds			20	64	4⅝	4⅝	4⅝
7¾	3	Tesoro Pet			7	149	6⅞	6¾	6¾
69¼	57⅝	Texaco	3.20	4.7	16	3554	68⅞	68¼	68½
53⅞	51½	Texaco C	3.25	6.2		6	52¾	52¾	52¾
28¾	21¾	Texas Ind	0.20	0.8	78	17	24⅞	24½	24½
84¼	45⅞	Texas Inst	0.72	1.1	19	10307	69¾	68	68½
19⅞	16¾	Texas Pac	0.40	2.1	23	3	18⅞	18⅞	18⅞
49¾	41⅝	Texas Util	3.08	6.6	14	2677	46⅞	46	46⅞
11⅛	9¾	Textl Pf	1.10	11.0		12	10	d9¾	10
9	3⅝	Textl Inds	1.10	26.7	5	85	4⅛	4⅛	4⅛

- U -

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- W -

- X - Y - Z -

Price data supplied by Telekurs

NASDAQ NATIONAL MARKET

4 pm close October 8

AMEX COMPOSITE PRICES

4 pm close October 8

THE FT INTERVIEW

Sober after the feast

Felipe González, the Spanish prime minister, speaks to **Peter Bruce, David Marsh** and **Tom Burns**

The march to European union has always been more than a question of mere politics and economics for Mr Felipe González, the Spanish prime minister. In the past, it has been a hobby, a spectacle, a feast – as pleasurable as the cured Spanish hams he still regularly sends his friend, Chancellor Helmut Kohl of Germany.

Now, however, as the Madrid autumn descends around his red-brick Moncloa Palace residence, Mr González shows a touch of wistfulness about the EC and Spain's place in it.

In his first newspaper interview since his fourth consecutive election victory on June 6, Mr González puts on a convincing display of realism – a product of constraints on his freedom of manoeuvre, stemming from setbacks both at home and in the rest of Europe.

As Mr González speaks, in a salon strewn with white sofas, his deputy prime minister, Mr Narcís Serra, is negotiating with executives from Germany's Volkswagen in another part of the Moncloa Palace. They are discussing the possible closure of the Barcelona factory owned by VW's Seat subsidiary, the likely consequence both of heavy losses at Seat and VW's general troubles in Germany.

Mr González faces a struggle on several fronts. As he attempts to persuade his Socialist party of the benefits of a more rigorous economic policy, he is seeking agreement from recalcitrant trade unions for deregulation of wage bargaining to increase Spain's industrial competitiveness.

Asked whether large threatened job cuts in Barcelona could help his efforts to end some of the notorious rigidities in the Spanish economy, Mr González confirms the sighting of a modest silver lining. "It's difficult to be a masochist. But sometimes a crisis can act as a purge. It can make people sit up and take notice."

Certainly, Spaniards are now taking notice that times are tougher. Infected by the European recession, Spain this year will register its first year of economic contraction since 1981. Its hopes that the peseta could become part of the "hard core" of European currencies closely linked to the D-Mark were shattered by three devaluations between September 1992 and May 1993.

After the virtual collapse of the European exchange rate mechanism in August, Mr González admits there is a "tremendous question mark" over whether the EC can achieve its aim of economic and monetary union by 1997 or 1999.

Referring to the targets set down in the Maastricht treaty for bringing EC budget deficits and government debt under greater control, Mr González admits: "We have diverged from the convergence criteria."

Spain's public sector budget deficit will be over 6 per cent of gross domestic product this year, double the 3 per cent target set by the Maastricht treaty. Even though the government has tacitly abandoned its original plan to reduce the deficit to 1 per cent of GDP by 1996, he says the EC has no alternative but to press on with the Maastricht convergence plans.

His hopes for improved European economic co-operation are somewhat slender. He is pinning them on the new European Monetary Institute to be set up next year, probably in Germany, as the forerunner to the planned EC central bank.

On the home front, his Socialists in June lost their previous absolute majority in the Cortes (parliament). This requires Mr González to make deals with two small regional parties, the Basque PNV and the bigger Catalan CiU, to push through parliament an austere budget presented at the end of last month. The budget proposes a civil service wage freeze next year as well as less generous pay-outs of social benefits and pensions.

He says he would have preferred a formal coalition with the Basque and Catalan parties, but will make the best of ruling with a minority government.

"This is something completely new in our country," says Mr González. "People are not accustomed to the central government doing deals with parliamentary minorities. It makes for an extraordinary commotion.

"My idea, and it seemed to me the best way to guarantee stability, was a coalition [but] with this excluded we have to make pacts to govern... If we have to go on negotiating, then we'll just do it."

The need to improve competitiveness seems to have infused the ever-didactic Mr González with additional zeal for lecturing his Socialist party on the facts of economic life.

He has started making a number of keynote speeches to take forward his campaign. The first – to a congress of young socialists – came last night. He is also scheduled to address a large meeting of supporters in his Andalucian homeland.

These will be the opening shots of a campaign to reshape the Socialist party's policies. Noisy arguments among left-wing and liberal factions, strongly influenced by Byzantine power struggles in the provinces, will reach a head when the party holds a congress next March, its first in more than three years.

"I am provoking a debate because what I want to do is to have the problems defined. I myself will defining my own position and making it clear."

Mr González says parties of "democratic socialism", now in a small minority among EC governments, have to face up to their new tasks unflinchingly, but without undue defensiveness.

"We defended liberty against the communists and we stressed social welfare against the conservatives," he says.

Now, however, after the collapse of communism in Europe and the end of the EC's late-1980s economic buoyancy, the programme has changed. "We can't keep saying: 'We want what we had in the 1960s'. This is a whole new debate," Mr González says.

A central focus is the role of the state as a provider of welfare. "What we have to do is to relate the capacity of the welfare state to increases in the country's productivity." Sounding almost like Mr Peter Lilley, the UK social security secretary, Mr González says: "We have to define [as priorities] certain types of welfare benefits and I am worried above all about certain elements of fraud and abuse in the welfare state."

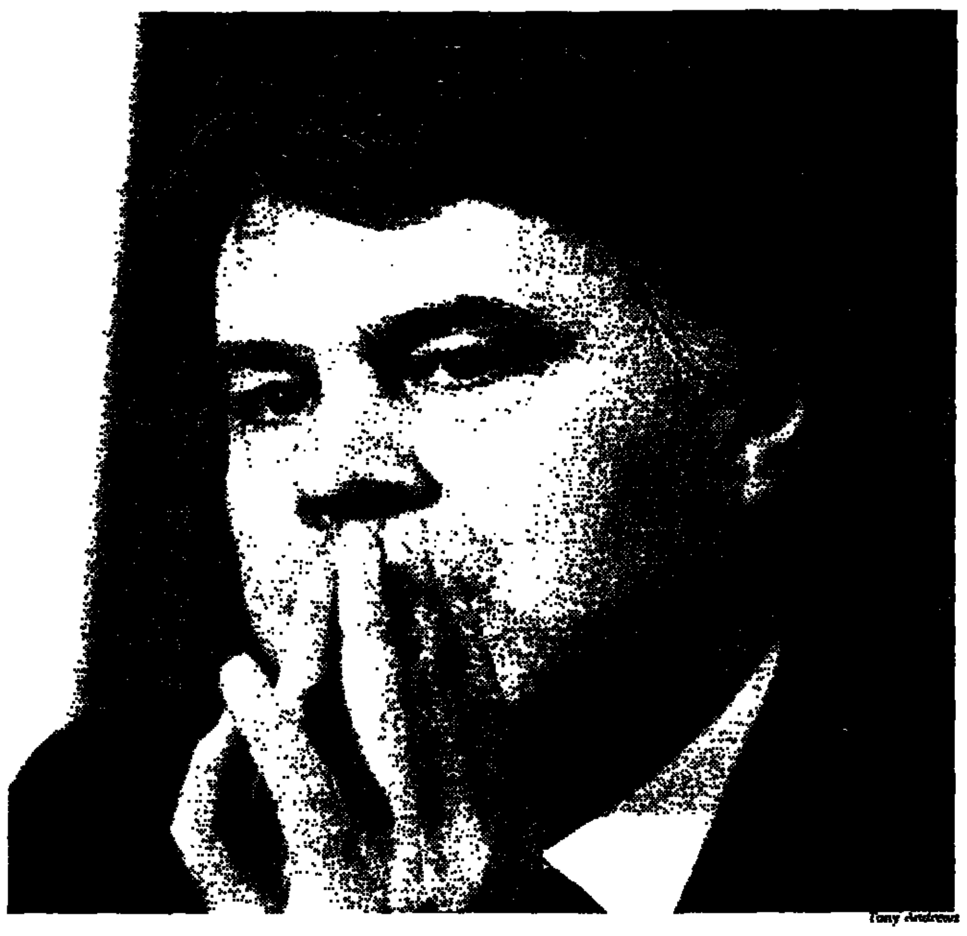
Spain's 21 per cent unemployment rate, the highest in the EC, is directly linked to the inflexibility of the Spanish labour market, he says. Wage inflation, at more than 7 per cent, has remained around 2 percentage points above the inflation rate in spite of the recession.

The prime minister is adamant that the trade unions must undergo a "cultural change. They have to stop seeing everything in terms of wages and profits and think instead about how a company can compete in an open market."

Setting out an agenda for plant-by-plant wage bargaining, and less onerous hire-and-fire regulations, he says: "We have to remove and eliminate all the obstacles to the creation of employment." Commenting on labour reform talks that started last week with unions and employers on a three-year "social pact", Mr González says he will force through the measures whether he gets agreement or not.

"I hope there will be agreement," he says. But he points to the unions' difficulty in reaching a compromise. "The big problem is that the government has nothing to give [the unions] in exchange."

Frequently during the past few years, Mr González has espoused tough-talking free market rhetoric without producing results. Now, in his latest and most serious campaign to tackle Spain's problems, Mr González is throwing into the breach his authority as Europe's best-respected Socialist prime minister. The environment, both in Spain and in the rest of Europe, has become a lot harsher; if he fails this time, that authority will start to crumble.



Tony Andrews

'We must remove all obstacles to job creation'

PERSONAL FILE

1942 Born in Seville.
1964 Joined Spanish Socialist party (PSOE)
1965 Graduated from law school. Studies at Catholic University, Louvain, Belgium
1966 Opened labour law office in Seville
1974 Elected first secretary of PSOE
1982 Prime minister
1986 Re-elected for a second term
1989 Re-elected for a third term
1993 Re-elected for a fourth term

The social role of savings

MICHAEL PROWSE on AMERICA

Why do many Americans support President Bill Clinton's drive to overhaul the US healthcare system but oppose his other main legislative priority - the North American Free Trade Agreement? The answer is that a guarantee of universal access to healthcare seems to promise greater economic security for many families whereas Nafta is widely (if wrongly) perceived as a threat to jobs and living standards.

What the federal government should or should not do to promote economic security in the face of intensified global competition is being hotly debated in Washington. Mr Bill Bradley, the Democratic senator from New Jersey, is urging Mr Clinton to do more than merely improve access to healthcare. To restore the shattered confidence of middle-income families, the US needs to create a broad "economic security platform". In addition to universal health cover this would include lifelong access to education and training – to enable displaced workers to relaunch themselves in new careers – and tough regulation of private pension schemes to end discrimination against workers forced by competitive pressures to switch jobs frequently.

Mr Bradley's remarks are timely. The federal government could certainly do more to promote adult educational opportunities and make pensions fully portable. But economic insecurity presents a much broader challenge for governments everywhere: to foster an improved public understanding of an individual's responsibilities in a competitive market economy.

With the demise of communism, nearly everybody agrees market capitalism offers a better hope of improved living standards than alternative economic systems. But market forces can work their magic only if people are willing to adapt. No group of workers can be guaranteed indefinite employment at any particular level of wages. A market economy can deliver steadily higher average living standards only if everybody accepts an implicit bargain: changing economic conditions may require them, at some point, to make a temporary sacrifice. It is failure to accept the risks associated with capitalism that creates the rigidities that prevent rapid growth.

But why are many people terrified by the pace of change imposed by global market forces? The short answer is they cannot afford to be flexible because they lack a financial cushion to carry them through bad times. People without savings are unlikely to support free markets.

Since antiquity, economists have preached the virtues of thrift. But today arguments for higher saving are usually couched in one-dimensional macroeconomic terms. Savings, we are told, will promote investment and hence lead to faster growth. In the long run, this logic is irrefutable: if people do not postpone consumption, capital cannot be accumulated. If capital is not accumulated, an economy cannot expand.

But the crucial role of personal savings in helping individuals cope with the vicissitudes of a market economy is too often overlooked. The argument has particular force in the US (and other Anglo-Saxon economies) where rates of personal savings tend to be abysmally low. The best way to reduce people's feelings of insecurity and to increase their commitment to capitalism is to persuade them to save a higher fraction of their income. This will lubricate economic change more effectively than an extension of publicly-funded social benefits, which tend to undermine individuals' incentive to accept responsibility for their economic futures.

The commitment to thrift in the East Asian "miracle" economies shows that much higher levels of personal savings are possible even for families on low to medium incomes. The first step western governments should take is to remove fiscal disincentives to saving. The US, which raises only a tiny proportion of national revenue through consumption taxes, is one of the worst offenders in this respect. The US tax code directly penalises saving by taxing nominal, rather than real, interest income and capital gains. And it provides huge subsidies for personal borrowing: mortgage interest of up to $1m a year is deductible.

A more controversial question is whether governments should mandate higher rates of personal savings rather than merely level the fiscal playing field. This is the path now being taken by several developing countries. At first glance, government-imposed savings requirements may seem an unacceptable infringement of personal liberty. But it rather depends on their purpose.

Suppose mandated savings were introduced as an alternative to tax-financed welfare. Governments, after all, could abolish most public sector pensions and require everybody to save a sizeable fraction of income through portable private pension schemes. Which would be the greater restraint of liberty: mandated savings obliging people to accumulate wealth and so take responsibility for most of their future needs; or taxes forcing people to finance benefits for others?

A social policy that relies on, or demands, increased personal saving is bound to be widely unpopular. It is always more pleasant if somebody else pays. Yet it is necessary both to fuel economic growth and to cope with the economic insecurity that is the counterpart of market dynamism.

Nato's growing pains

IAN DAVIDSON on EUROPE

The crushing of the Moscow parliament raises troubling questions about the future of Russia and the policies of the west towards Moscow. In the west the short-sighted have brayed crude applause for the victory of the good over the bad. Reality is less reassuring. It seems likely that from now on, events in Russia will present the west with increasingly difficult policy dilemmas.

The end of the parliamentary-presidential stalemate in Moscow may open the door to the economic reforms needed to stabilise Russian society; the new parliament due to be elected in December may help the building of a precarious democracy.

But events may prove less utopian. If Russia becomes "democratic", it may not remain stable; if "stable", it may not remain democratic. The new parliament could be as incoherent as the old, and just as obstructive to government policy. Worse, the bloody and incompetent use of military force in putting down the parliament, may turn out to be an ominous precedent for the role of the military in the turbulent years ahead.

As a result, western leaders face new and serious dilemmas. They have supported President Boris Yeltsin, partly because he faced down the abortive communist coup against President Mikhail Gorbachev in August 1991, partly because he has the legitimacy of popular election. Since the parliamentary shoot-out, western support has become almost unconditional.

Yet this crisis may mark a watershed in east-west relations. The west still has every reason to hope for friendship with Russia; it still wants and supports democratic and economic reforms. But the Moscow crisis and its bloody conclusion, through some uncertain Faustian pact between army units and the state, contain the risk that Russia may become more unstable internally, more dangerous externally.

In other words, western security anxieties, which only four years ago seemed to have evaporated in the heady euphoria following the collapse of the Berlin Wall, are now likely to move up the agenda again.

These anxieties are already welling up in a new debate on the future of Nato, which will come to a head at next January's Nato summit. And topping that agenda will be the most contentious question: should Nato extend its reach, or even its membership, to include countries in eastern Europe?

Poland, Hungary and the Czech Republic have all pressed their hope of joining Nato; and the idea of enlarging Nato membership has been encouraged in Germany by Mr Volker Rühe, German defence minister, and by Mr Manfred Wörner, Nato secretary-general. Even Chancellor Helmut Kohl has endorsed the idea that Nato should give security guarantees to eastern Europe, perhaps short of full membership.

The question of Nato enlargement will be settled essentially in Washington, but it will also be crucially influenced by events in Russia. In August, in a public statement in Warsaw, Mr Yeltsin gave the green light to Nato membership for Poland and other east European countries. Since then, however, he has reversed tack and privately warned western leaders against any such enlargement; instead he has proposed that Russia and Nato should jointly guarantee the security of eastern Europe.

This proposal has no chance of acceptance. The countries of eastern Europe have only just thrown off the "security" imposed by the former Soviet Union, and they will not accept its return by the back door. But it is disturbing confirmation of other claims advanced by Russia to a right to intervene in the "near abroad" – that is, its neighbours in the former Soviet empire.

Senator Richard Lugar, leading foreign policy spokesman for the US Republicans, thinks enlargement is the best way to give Nato a new lease of life. But most US policymakers will be even less enthusiastic about enlarging Nato than the Russians. Their first hope is peace with their new Russian friends; an extension of Nato to the Russian frontier would look provocative, even hostile.

More important, the US will be reluctant to extend the real prize of Nato membership – the ultimate security umbrella of an American nuclear guarantee. While Russia's stability hangs in the balance, it is implausible that Washington should extend such a guarantee to new Nato members in the east, at the same time as it is slashing its troop forces in the west, now down to 100,000 men and falling.

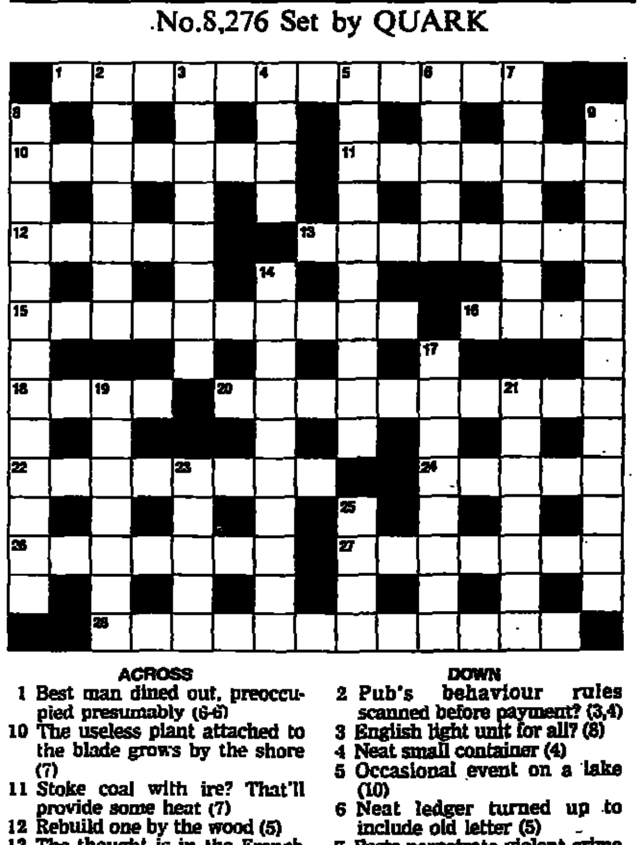
The problem will not go away, however, because enlargement of the European Community will automatically raise the question of Nato membership. The 12 are now negotiating membership with four countries belonging to the European Free Trade Association, and they are close to conceding eventual membership for eastern Europe. The Maastricht treaty commits the Community to the development of a common security policy. But if Nato cannot be expanded, the security policy of an enlarged EC would have to be conducted mainly outside Nato.

This is the epitome of the EC's political dilemma. It can develop as an independent partner in the trans-Atlantic community in which its security policy can be the European pillar in intimate alliance with the US. Or it can develop in the direction of a pan-European structure, in which case its enlargement towards the east would progressively weaken the link with the trans-atlantic Alliance.

In some ways, western Europe will have to embrace the east. But it is obviously not yet ready to take on, by itself, the risks and possible threats posed by the disintegrating Russian empire.

CROSSWORD

No.8,276 Set by QUARK



ACROSS

1 Best man dined out, preoccupied presumably (6-6)
10 The useless plant attached to the blade grows by the shore (7)
11 Stoke coal with ire? That'll provide some heat (7)
12 Rebuild one by the wood (5)
13 The thought is in the French to exalt to perfection (8)
15 Able to cross the pond? (State of ground after lot of water) (5-5)
16 Worn out cane (4)
18 Extravagant publicity in pushy periodical (4)
20 Going down one side? (10)
22 Flyer upset with ice cracking violently (8)
24 Important date after work for musical performance (5)
26 Artist in London district noted for colourful display (7)
27 Round panel I reconstructed it's difficult to see through (7)
28 Does away with the former finishes (12)

DOWN

2 Pub's behaviour rules scanned before payment? (3,4)
3 English light unit for all? (8)
4 Neat small container (4)
5 Occasional event on a lake (10)
6 Neat ledger turned up to include old letter (5)
7 Pests perpetrate violent crime (7)
8 Arrive at the boundary, say, and take a leading part (4,2,3,4)
9 Mention artist's unwelcome bank statement (5,2,6)
14 Plant in difficult position round the stream (10)
17 Unbroken view of gold in Central American republic (8)
19 Empire's broken up (statement assumed to be true) (7)
21 Crack about minister's diamonds (7)
23 Old navigator – a sailor in a sort of hammock (5)
25 Look over a hundred and one places (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 23.

هكذا من الأصل

Partition plan unleashes wave of Bosnia expulsions

By Laura Silber in Bijelina

FEARS that a plan for the ethnic partition of Bosnia-Hercegovina would unleash a new wave of forced expulsions have been confirmed.

Serb authorities are evicting Moslems who over 18 months of war have remained in their home towns, designated part of the proposed Bosnian Serb mini-state.

Bosnian Croat forces, too, have stepped up their drive to expel the last Moslems from territory under their control.

In Bijelina, north-eastern Bosnia, Moslems willing to describe the terror seizing the prosperous town, where they once comprised half the population, speak only on condition their real names are not used.

Muhamed, a middle-aged teacher who was sacked by Serb officials, tells about a state commission which rounds up Moslems and forces them to cross front lines to the Bosnian government stronghold of Tuzla.

"First they check out the houses. They choose the big ones. In broad daylight, three men arrive in a black metallic Nissan jeep. If you are lucky, they give you three hours to pack," said Emira, his wife.

In a store front on a quiet street lined with well-groomed gardens, a group of tattooed thugs boast that they are the commission's security team.

One man, carries a Luger pistol, which, mimicking the sound of a gun shooting, he says he will use against anyone who interrupts his "work".

He says his commander is Mr Zeljko Raznatovic, known as Arkan, whose paramilitary unit in concert with the Yugoslav army in spring 1992 killed or expelled tens of thousands of Moslems from eastern Bosnia.

Moslems once comprised half of Bijelina's population of 32,000. The town was the first to fall to Serbian control.

The Commission selects "candidates" for the deportations. In what amounts to a trade-off, Serbian leaders allow looting of the Moslems as long as they are expelled.

Fearing retaliation, local Serbs opposed to the newest wave of ethnic cleansing remain silent. A Serbian eyewitness of the nightly round-ups says: "A group of Serb hooligans gathers about 40 Moslems every second or third night ... after that they are taken to agricultural high school. They steal everything from the Moslems, who have packed all their money and some gold."

Muhamed tells how he was evicted from his flat by Serb refugees but found shelter with relatives.

His wife, Emira, says local officials place Serb refugees from central Bosnia with Moslem families in a process called cuckoo's nesting. "When that happens I will leave, I could not bear it," she says.

But most Moslems are not allowed to leave. Some pay up to DM500 ($300) to "travel agencies" to be dumped at the Serbian border with Hungary.

"Moslem neighbours disappear. Even those that sign loyalty oaths," says Muhamed. "There is no way for us to survive here ... We don't know what we are waiting for," he adds.

A horse and cart drives past a banner backing the Moslem leader of Bosnia's Bihac enclave AP

Icy handshake for Yeltsin

Leyla Boulton and William Dawkins on president's Tokyo visit

RUSSIAN President Boris Yeltsin can expect an icily polite reception when he arrives in Tokyo this evening for a three-day official visit.

Mr Morihiro Hosokawa, the Japanese prime minister, will no doubt be relieved that Mr Yeltsin has at last made good his promise to make a visit, postponed twice already to the irritation and bewilderment of his hosts.

But once the welcoming handshakes are out of the way, Mr Hosokawa promises to get down to the prickly business of pushing for progress in the dispute over the four Kurile islands seized by Soviet troops in the final days of the second world war. He will also express regret over the recent bloodshed in Moscow – which prompted opposition calls for the visit to be cancelled.

Although vastly strengthened after suppressing his conservative enemies' armed uprising in Moscow, Mr Yeltsin is unlikely to be ready, this time round, for concessions on the islands Japan wants returned to it.

"It is difficult to expect a breakthrough in this direction," says Dr Vyacheslav Amirov of Moscow's Centre for Japanese and Pacific Research. "Notwithstanding the end of this first phase in Russia's internal conflicts, the future of the president and the outcome of forthcoming elections is still not clear." He did not, however, exclude "surprises" from Mr Yeltsin, who is unpredictable in his decision-making.

Typically, the president has not clarified his position, describing declarations by his prime minister in August that Russia would never return the islands as "just one variant".

Japanese will push for progress on the disputed islands

In contrast, Mr Gennady Burbulis, an aide who is the main liberal voice in the Yeltsin camp, told a recent seminar in Tokyo that he was sure the islands would be returned "sooner or later".

Regarding Moscow as an opportunistic aggressor in seizing the islands, Japan has yet to sign a peace treaty with Russia formally ending wartime hostilities.

Although the Japanese see their "northern territories" as the main item on the agenda, a Russian Foreign Ministry official on Friday blamed the media for "suggesting that the importance of this visit is based solely on this issue".

"Such an approach is being avoided by the Japanese side," he claimed. "The development of relations is only begining."

Admittedly, Japanese officials do not expect great progress on the islands during a visit which Mr Hosokawa last week described as more of a chance "to take Russo-Japanese relations to a new level".

In a desire to improve relations, it hopes to conclude 15 co-operation accords ranging from space technology to improving safety at Russian nuclear power plants and helping to dismantle Russian nuclear weapons.

The most Tokyo hopes for on the territorial front is to name the four islands – Iturup, Kunashir, Shikotan and Hobbemai – in a joint communiqué at the end of the visit. Japan would take this as Russian acknowledgement of its claims to all four and a step forward from a 1956 communiqué – since nullified by Moscow – in which the Soviet Union offered to return two of them.

Even this is likely to be too much for Mr Yeltsin. Like Britain's Falklands, these islands inspire a sense of national importance on both sides, out of scale with their economic value.

If any improvements are achieved during the visit, it will be thanks to the change of guard in Tokyo. Mr Yeltsin can be thankful that he is meeting the courteous Mr Hosokawa and not a prime minister from the LDP, the governing party for 38 years until it lost power this summer.

Despite his more conciliatory tone, Mr Hosokawa is under even more political pressure than his predecessors to get redress from Moscow for wartime wrongs. Many people, especially in the LDP, were shocked by his recent apologies for Japan's wartime aggression and see Mr Yeltsin's visit as an opportunity to restore the balance.

Japan has been careful not to spell out its offer in return for territorial concessions, beyond sticking to its policy that it will offer no large-scale economic aid until the issue is resolved. In practice, that stance has become increasingly hard to maintain. Japan is now Russia's third largest aid donor, with pledges of $5bn (£3.3bn) – of which only 10 per cent has been disbursed so far.

Serbs halt UN relief convoys

UN OFFICIALS said relief convoys headed for two besieged Bosnian Moslem towns were held up at the last moment yesterday by Serb authorities in Banja Luka, contrary to earlier UN reports, Reuter reports from Sarajevo.

Mr Ray Wilkinson, a spokesman for the UN High Commissioner for Refugees (UNHCR), had said earlier the convoy had left the north Bosnian town of Banja Luka, but he said Serb authorities halted the convoy despite giving verbal permission previously.

"We didn't get final approval," Mr Wilkinson said. "We got every signature except one."

He said the convoy would stay in the Bosnian Serb stronghold of Banja Luka for the night, and was hoping to try again today

The two convoys were carrying 250 tonnes of aid for the Moslem towns of Maglaj and Tesanj, which have been cut off from food deliveries by road since June.

The UN estimates nearly 150,000 people are trapped in the Maglaj pocket in northern Bosnia, where Serb and Croat forces have encircled Moslem troops.

The convoy left Zagreb for the Maglaj area after lengthy negotiations between UNHCR officials and Serb authorit ies.

This would be the first UN aid convoy into the Maglaj pocket since June 1. The last UN convoy into the area was shelled outside Maglaj and three relief workers were killed.

The Maglaj region, where hundreds of people were reported to have been killed in repeated bombardments during the five-month joint Serb-Croat siege, was shelled again on Saturday, according to Sarajevo radio.

Europe to speed vetting of rights

By Edward Mortimer in Vienna

EUROPE'S Strasbourg-based human rights machinery is to be radically reformed, under a decision taken in Vienna at the weekend. The present two-tier system, under which complaints are exhaustively vetted by a commission before being heard by the European Court of Human Rights, will be scrapped in favour of a single court, in an effort to reduce the time it takes to reach a final judgement.

The decision was taken by the Council of Europe, the body which set up the machinery in the early 1950s. It was meeting at summit level for the first time in its 44-year history. Nearly all the 32 member states were represented by their head of state or government – the main exceptions being Britain, whose prime minister, Mr John Major, was attending his party's annual conference, and Greece, in the throes of a general election.

The summit also decided to call for a new "framework convention" on the protection of national minorities, and "a protocol complementing the European Convention on Human Rights in the cultural field by provisions guaranteeing individual rights, in particular for persons belonging to national minorities".

But whereas the protocol establishing the single court of human rights is to be ready for signature by next May, the documents on minority rights – a highly sensitive issue for many European governments – will take much longer to agree. And the framework convention, unlike the human rights convention, will not be enforceable by a court. It will only specify "the principles which contracting states commit themselves to respect".

Mr Vaclav Havel, the Czech president, voiced reservations shared by Britain and France when he warned the summit not to "let in the demon of national collectivism with a seemingly innocent emphasis on the rights of minorities and on their right to self-determination". Such an emphasis, he said, "inevitably leads to questioning of the integrity of the individual states and the inviolability of their present borders".

Under the draft protocol restructuring human rights machinery, judges of the single court (one for each member state) will sit in committees of three to weed out inadmissible cases, and in "chambers" of seven to try the merits of those judged admissible. Difficult or important cases may be referred to a "Grand Chamber" of 17 judges. Lord Mackay of Clashfern, Lord Chancellor, who represented Britain, says he hopes this procedure may halve the time to settle an average case (now 5-6 years).

South Korea calls secret dealers to account

By John Burton in Seoul

SOUTH KOREA is today bracing itself for the final deadline in a decree issued two months ago by President Kim Young-sam banning the tax dodge of using false names for financial transactions. The deadline on converting such accounts into the real name of their owners expires tomorrow, and any remaining could be confiscated.

Some analysts expect the financial sector to be thrown into chaos by a massive last-minute withdrawal of funds from bank and stock accounts by large depositors – the so-called "big hands" who dominate the money markets – in an effort to hide their money from the tax collector.

This could trigger a banking crisis and cause temporary defaults at some financial institutions, while sending the stock market into a dive.

But officials discount such fears. "There is no way they can withdraw their money without disclosing their true identity," said Mr Lee Kyung-shik, deputy prime minister for economic affairs. He was referring to the requirement for all account holders to provide identification proving ownership of the assets when engaging in financial transactions.

About 70 per cent of the Won300,000bn (£245bn) in financial accounts has been identified since the decree was issued, according to Mr Yong Soo-gil, a senior government adviser who planned the reform. The large unverified portion has led to speculation that hidden financial assets may amount to between Won30,000bn and Won75,000bn, or 10-25 per cent of all financial accounts.

The government estimates that only Won3,200bn is being held under false-name accounts. But analysts argue that the problem is far larger because some account holders have borrowed the names of other people to hide their assets, which complicates the identification process.

In an attempt to encourage hesitant account holders to report their assets, the government recently announced that owners of anonymous accounts could buy low-interest 10-year government bonds to avoid tax investigations and gift and inheritance taxes. But there has been little response so far.

The government described the bond offer as one way to soak up money from the underground economy, which is estimated to equal 20 per cent of gross national product, and use it to revive economic growth.

Mr Kim's administration has been criticised for pursuing the real-name system at the expense of the economy. The central bank last week predicted that economic growth could slow to 4 per cent this year, the lowest rate since 1980, as a result of the real-name system.

The attack on the underground economy is disrupting growth because the hidden funds helped finance corporate investment and supported consumer spending.

Small and medium businesses, for example, have depended on funding from the unofficial kerb market, which is largely financed by money held under false names. The crackdown has caused that market to collapse and threatened the survival of small businesses unable to acquire bank loans because they lack collateral.

The government has provided Won1,000bn in emergency loans to the sector and claims it has averted a rise in bankruptcies.

Mr Lee and other officials express confidence that the economy will recover next year as the nation adjusts to the new system.

The stock market index fell by 5 per cent on the introduction of the real-name system, but has since recovered to its previous level. Some analysts even predict that share prices could rise sharply as false-name holders switch their funds to the stock market.

Meanwhile, the authorities are taking strict measures to prevent the flight of capital abroad, including searching departing passengers at airports for large amounts of cash or bank drafts. Officials are also examining property deals to prevent the secret funds finding a new home in land speculation.

Polls in provinces benefit Bhutto

By Farhan Bokhari in Lahore

MS BENAZIR BHUTTO'S ability to form a durable government in Pakistan was strengthened at the weekend by the outcome of provincial elections.

Her Pakistan People's Party (PPP) won a narrow lead in Punjab, the largest and wealthiest province, where her rival, Mr Mohammed Nawaz Sharif, has been chief minister.

As in Wednesday's national elections, in which Mr Sharif's Pakistan Moslem League (PML) also won fewer seats than the PPP, he refused to concede defeat.

Ms Bhutto said in Lahore: "Although the margin is small, the message is clear... that the Pakistan People's Party and its allies will be forming the government of Punjab." However, Mr Sartaj Aziz, secretary general of the PML, said in Islamabad: "How can they make such claims? They are still far from being there."

The PPP and its allies won 112 seats against the PML's 106 seats in the province, which has a total of 240 seats for Moslems and eight for non-Moslem members. The result has suddenly increased the importance of the non-Moslem members as well as another two independents. Both sides are now trying to win their support.

Ms Bhutto's party won a comfortable majority in her home province of Sindh.

The PML and its allies won enough seats to form the government in the North West Frontier province, while in Baluchistan no single group won enough seats to form the government.

At a national level Ms Bhutto is trying to win over smaller parties and independent members in the 217-seat lower house of parliament, where she and her allies have 95 seats so far against Mr Sharif's 72. The house is due to meet next week to elect the prime minister.

The Karachi stock exchange 100-share index fell 7.71 points to 1,362.12 yesterday, the first trading day after the election.

Talk of plots as PLO seizes its own guards

By Lamis Andoni in Amman

THE ARREST by the Palestine Liberation Organisation of several bodyguards at its headquarters in Tunis appears to reflect continued and deep divisions within the organisation over last month's historic Israeli-Palestinian accord.

PLO officials were quoted as saying that the crackdown followed two foiled attempts on the life of Mr Yassir Arafat, the PLO chairman. The plots were allegedly masterminded by Abu Nidal and Ahmed Jibril, leaders of two small renegade factions which oppose the pact.

However, other Palestinian officials in Tunis said the arrests were in fact a pre-emptive step by Mr Arafat to marginalise critics of the accord within the mainstream Fatah movement of the PLO. He was expected to use the alleged plots to discredit opponents of the agreement at last night's PLO central council meeting, called to discuss and ratify the deal.

Two main rejectionist groups, the Popular Front for the Liberation of Palestine (PFLP) and one wing of the Democratic Front for the Liberation of Palestine, have boycotted the meeting. Leaders of 10 rejectionist groups based in Damascus, and the Hamas Islamic resistance movement, last week agreed to create a new leadership for the six-year-old *intifada* uprising in the occupied territories and step up attacks on Israeli targets.

Further PLO-Israeli talks towards implementation of the outline deal begin on Wednesday in Cairo and in Taba, the Egyptian Red Sea resort.

David Horovitz adds from Jerusalem: Two Israeli hikers, shot and bludgeoned to death in the occupied West Bank on Saturday, were buried yesterday as Israeli ministers vowed not to let their killers undermine the peace accord.

Two rival groups opposed to the autonomy deal – the PFLP and the Moslem fundamentalist Islamic Jihad – each yesterday said they were responsible.

Most of yesterday's weekly cabinet meeting was devoted to discussion of the killings and of an attempted raid on northern Israel by the PFLP early on Saturday. "The war continues," said Mr Shimon Peres, foreign minister. "In the past it was a war against Israel, and today it is a war against peace with Israel."

Palestinian chief negotiator Haidar Abdel-Shafi arrives in Tunis for the PLO council meeting

Reuter

BCCI trial opens in Abu Dhabi

By Robin Allen in Abu Dhabi

THE trial in Abu Dhabi of 13 former officers of the Bank of Credit and Commerce International has been adjourned until 13 November following a preliminary hearing on Saturday. All of the defendants in court – 11 of the 13 charged – pleaded not guilty to the charges which include fraud, forgery, bribery and mismanagement.

If found guilty, each could face up to three years in jail on any one of the charges. Mr Mohammed Saleh Naqvi, a former chief executive, is charged on nine counts. Others, including Mr Agha Hassan Abedi, the bank's founder and president who is being tried in absentia, face up to a similar number.

In his opening statement, Mr Adli Mahmoud, the Egyptian public prosecutor, said the attorney general's office had had severe difficulty identifying the nature and extent of the alleged fraud because of the "family system" on which the bank operated, where those concerned were bound by friendship and personal ties originating in Pakistan. As bank officers, "they were all very careful not to give information which could harm each other", he claimed.

Abu Dhabi's exposure to BCCI and related entities amounted to $9.4bn, of which some $1bn may be recoverable in the longer term.

If, as is possible, the private department of Sheikh Zayed, the ruler of Abu Dhabi and president of the United Arab Emirates, institutes civil proceedings against the accused to seek compensation for financial losses, then the court proceedings could run on indefinitely.

It is more likely, however, that the criminal trial will proceed on its own, in which case the trial could last up to six months.

Pressure on Libya at UN over Lockerbie

By Mark Nicholson in Cairo

THE UNITED Nations Security Council will today begin formal discussions on a draft US, British and French resolution tightening sanctions against Libya which could go to a vote within days. British officials expressed confidence the resolution would be approved.

This follows Libya's refusal to turn over for trial in a US or Scottish court two men accused of planting the bomb which destroyed a PanAm flight over Lockerbie, Scotland, in 1988 – and their failure to volunteer themselves for trial.

A 15-strong team of international defence lawyers said after a two-day meeting in Tripoli with the two men that they saw legal impediments to their clients receiving a fair trial in Scotland. They expressed "grave concern" that any trial there would be prejudiced by the extensive publicity surrounding the case.

The meeting was part of a complex series of moves which British and other western diplomats claim is simply an elaborate attempt to buy time and perhaps stall imposition of sanctions.

Can Yeltsin be a democrat and a reformer?

HAVING seized power by eliminating the core group of opponents to his economic programme, Russia's President Boris Yeltsin must now decide how to use it.

His first instinct seems to be to press ahead with parliamentary elections in December. But Mr Yeltsin knows both that the state of the economy wins elections, and that the Russian economy is not in good shape. Hence his dilemma: delaying elections may threaten his political legitimacy; pressing ahead with elections quickly may prevent him from implementing the kind of radical economic reforms upon which his political future depends.

This is a subject on which officials from the World Bank and the International Monetary Fund are required to keep quiet. Publicly, they have no views about the desirability of different political regimes. But the combined experiences of the IMF and the World Bank must have taught them some lessons about the links between economic outcomes and the nature of political regimes.

The first lesson seems to be that there is no discernible relationship between economic growth and political regime. China has posted faster growth rates over the past decade and achieved a much larger rise in literacy than India, one of the world's oldest democracies. But Poland has managed both to revive its economy and manage a transition to democracy, neither of which has occurred in authoritarian Romania. Zaire does not suggest authoritarianism is good for growth, but nor do Kenya, Zimbabwe or Nigeria suggest that multi-party elections deliver economic recovery.

A more systematic examination of the relationship between growth and democracy conducted by John Helliwell at the US National Bureau of Economic Research fits this anecdotal view. In a sample of 98 countries over the period 1960 and 1985, he finds that countries with higher levels of income per head are more likely to be democracies, but that democracies do not tend to grow either faster or slower than non-democracies.*

Yet Russia's situation is a little more delicate: before it can worry about growth, Mr Yeltsin's government must first stabilise the economy's rapid inflation rate. But will elections help? Stabilising a monthly inflation rate of 20 per cent should improve the lot of millions of Russians. But the corollary of a successful stabilisation is likely, at least in the short term, to mean a rise in unemployment from less than 1 to perhaps considerably more than 10 per cent.

The World Bank did, in fact, examine the links between successful IMF stabilisation programmes and political regime a few years ago. The results, buried deep in the 1991 World Development Report, are reproduced in the chart. Success is measured by the number of years in which fiscal deficits, central bank credit growth or government spending fell. The analysis suggests that there is little to choose between continuous democratic or authoritarian regimes: credit growth falls about 60 per cent of the time in both cases. But the chances of successful stabilisation were much lower in countries which only recently made the transition to democracy, presumably because political allegiances were more fluid and governments more anxious to deliver signs of progress.

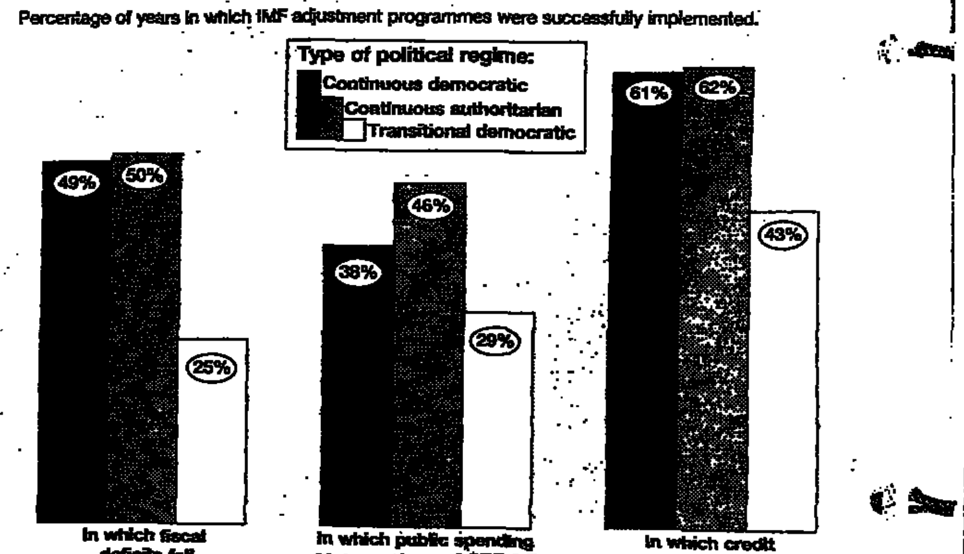
This tension between political transition and economic stabilisation is not only a dilemma for Mr Yeltsin. The G7 governments probably have little option but to link aid to democratic reform in Russia. But, as IMF or World Bank officials may whisper in their ears, that does not necessarily imply that democratic elections, as opposed to the promise of them, must be a precondition for either aid or reform. Ghana, one of Africa's most successful reformers, waited 10 years between stabilisation and multi-party elections. And, as Mr Yeltsin may reflect, these were won by the erstwhile dictator, Flight Lieutenant Jerry Rawlings.

Edward Balls

* *Working paper 4066, May 1992. NBER, 1050 Mass. Ave, Cambridge MA 02138 USA.*

Politics of successful stabilisation

Percentage of years in which IMF adjustment programmes were successfully implemented.



Source: World Development Report 1991

*Based on reform episodes in 17 countries from the 1950's to the 1980's.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	JAPAN Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.8	102.2	99.4	83.7	100.6	95.3	101.4	103.3	119.2
1987	105.6	100.7	103.8	96.7	74.9	101.2	92.5	103.1	100.6	123.3
1988	109.9	103.2	106.9	99.1	71.4	102.2	92.3	107.8	96.2	130.0
1989	115.2	108.5	110.0	101.1	75.0	104.9	94.2	114.0	96.1	122.1
1990	121.5	113.8	113.8	104.3	71.8	108.2	95.7	120.1	98.2	109.2
1991	126.6	116.3	117.3	107.8	71.3	111.8	96.8	124.2	101.8	116.2
1992	130.4	117.7	120.2	108.1	70.6	113.6	95.8	125.6	111.1	118.7
3rd qtr.1992	3.1	1.6	2.3	0.7	68.1	2.0	−0.9	0.7	8.9	117.1
4th qtr.1992	3.0	1.6	2.2	−0.8	72.2	0.9	−1.2	−0.1	10.4	122.2
1st qtr.1993	3.2	2.0	2.8	−1.9	74.3	1.2	−1.1	−0.5	7.0	126.0
2nd qtr.1993	3.2	2.0	2.5	−2.4	72.7	1.0	−1.4	0.7	5.3	135.0
3rd qtr.1993					73.7	1.7				142.0
October 1992	3.2	1.7	2.5	−0.4	70.2	1.2	−1.1	1.2	10.5	121.8
November	3.0	1.4	1.7	−1.1	73.2	0.6	−1.1	1.2	10.4	122.4
December	2.9	1.6	2.5	−1.0	73.4	0.9	−1.2	−1.0	10.3	122.3
January 1993	3.3	2.0	3.4	−1.8	74.5	1.0	−1.1	−3.6	10.1	122.0
February	3.2	2.0	2.5	−2.1	74.7	1.3	−1.0	1.3	7.3	126.4
March	3.1	2.0	2.5	−2.0	74.0	1.2	−1.2	1.0	3.6	129.2
April	3.2	2.5	2.6	−2.1	72.6	0.9	−1.3	2.0	5.4	132.0
May	3.2	2.0	2.5	−2.1	72.5	1.1	−1.5	2.3	6.1	134.4
June	3.0	1.4	2.5	−2.9	73.0	1.0	−1.5	−0.9	4.5	138.7
July	2.8	1.3	2.5	−2.7	74.3	1.6	−1.7	0.3		140.2
August	2.8	0.6	2.5	−2.8	73.6	2.0				145.2
September					73.0	1.4				140.6

	GERMANY Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	FRANCE Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.8	107.0	102.5	97.2	104.5	101.5	102.9
1987	100.1	95.1	108.0	107.1	110.5	105.9	97.8	107.8	103.0	104.1
1988	101.4	96.2	113.0	108.9	109.9	108.8	102.8	111.1	104.0	101.8
1989	104.2	99.3	117.3	108.0	106.4	112.6	108.4	115.4	105.3	99.8
1990	107.0	101.0	123.8	110.3	110.3	116.5	107.1	120.6	109.5	102.9
1991	110.7	103.4	131.8	115.0	108.4	120.2	105.8	125.8	113.8	101.3
1992	115.1	104.8	138.6	121.5	110.5	123.0	104.0	130.3	115.8	104.7
3rd qtr.1992	3.5	1.0	n.a.	6.5	111.2	2.7	−0.9	n.a.	1.8	105.0
4th qtr.1992	3.7	0.5	n.a.	7.7	113.2	2.2	−1.5	n.a.	2.6	108.2
1st qtr.1993	4.3	0.5	n.a.	9.6	113.4	2.1	−2.3	n.a.		109.3
2nd qtr.1993	4.2	−0.2	n.a.	5.2	111.7	2.0	−3.3	n.a.		109.3
3rd qtr.1993	4.2		n.a.					n.a.		105.9
October 1992	3.7	0.5	-	7.0	113.7	2.4	n.a.	-	n.a.	108.8
November	3.7	0.5	-	9.5	112.4	2.1	n.a.	-	n.a.	107.9
December	3.7	0.5	5.2	6.7	113.4	2.0	n.a.	3.6	n.a.	108.0
January 1993	4.4	0.8	-	11.5	113.6	2.1	n.a.	-	n.a.	108.6
February	4.2	0.5	-	11.5	113.5	2.1	n.a.	-	n.a.	109.6
March	4.2	0.3		5.9	113.1	2.2	n.a.	3.4	n.a.	109.7
April	4.3	0.1		7.5	112.6	2.1	n.a.	-	n.a.	110.0
May	4.2	−0.3		5.0	111.6	2.0	n.a.	-	n.a.	109.3
June	4.2	−0.4		3.2	110.6	1.9	n.a.	2.6	n.a.	108.5
July	4.3	−0.2			110.3	2.1	n.a.	-	n.a.	106.3
August	4.2	−0.3			111.7	2.2	n.a.	-	n.a.	105.0
September	4.0				113.3		n.a.		n.a.	106.3

ITALY Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	UNITED KINGDOM Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1985
106.1	100.2	104.8	102.7	103.6	103.4	104.3	107.7	104.5	94.2	1986
111.0	103.2	111.6	105.5	104.9	107.7	108.3	116.3	105.9	94.2	1987
116.5	106.8	118.4	109.7	103.8	113.0	113.2	126.2	108.9	101.6	1988
124.2	113.1	126.6	112.3	107.4	121.8	119.0	137.2	113.6	100.9	1989
131.8	117.8	134.7	118.9	108.5	133.3	126.3	150.1	123.2	102.2	1990
140.3	121.7	147.9	131.3	107.7	141.2	133.1	162.4	131.7	105.8	1991
147.7	124.0	155.9	136.8	102.4	146.4	137.2	173.1	133.8	102.8	1992
5.2	1.9	3.7	2.7	104.3	3.6	2.8	6.2	1.2	105.7	3rd qtr.1992
4.8	2.2	2.9	6.5	93.0	3.0	3.1	5.7	−0.3	92.9	4th qtr.1992
4.3	3.1	2.8	4.4	85.8	1.8	3.6	4.9	−2.9	92.4	1st qtr.1993
4.1		3.1		86.5	1.3	4.0	4.2	−2.2	94.8	2nd qtr.1993
4.3				85.4					96.5	3rd qtr.1993
4.9	2.0	4.1	n.a.	92.8	3.6	2.8	6.3	−0.5	93.8	1992 October
4.8	2.2	2.1	n.a.	94.7	3.0	3.1	5.6	0.2	91.3	November
4.6	2.5	2.4	n.a.	91.4	2.6	3.4	5.4	−0.6	93.5	December
4.2	2.8	2.8	n.a.	88.0	1.7	3.6	5.0	−3.3	94.9	1993 January
4.4	2.9	2.8	n.a.	86.0	1.8	3.6	5.9	−2.8	90.3	February
4.2	3.5	2.7	n.a.	83.8	1.9	3.7	4.0	−2.5	92.0	March
4.2	3.7	2.6	n.a.	83.9	1.3	4.0	4.5	−1.8	94.8	April
4.0	3.9	2.6	n.a.	87.7	1.3	4.0	4.4	−4.4	95.1	May
4.2		4.2	n.a.	88.1	1.2	4.0	3.7	−0.4	94.6	June
4.4		4.1	n.a.	86.5	1.4	4.2	3.7	−0.6	97.0	July
4.4			n.a.	85.4	1.7	4.3			96.8	August
4.2			n.a.	84.3					96.1	September

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 15 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

FINANCIAL TIMES SURVEY

BUSINESS LOCATIONS IN EUROPE

Monday October 11 1993

The driving force behind much of the business location activity across Europe arises from the need to consolidate manufacturing, distribution and management functions, and to adjust to a wider European market of 400 million people, reports **Michael Cassell**

Companies face tough decisions

WHILE the politicians agonise over the future shape and direction of Europe, the commercial community which makes up one of the world's most powerful economies has to get on with its business. The luxury of long-term summitry is for others; winning the next order is top of the daily agenda.

But as corporate Europe clocks on, it is *increasingly* obliged to take note of far-reaching structural changes, proposed and underway, in the political and economic landscape.

Companies' future success or failure will depend on the strength of their strategic skills and how they deploy them to best exploit a western and central European market of 400m people.

Nor will the game of winning in Europe only be played by the huge multinational corporations who are well used to adapting, chameleon-like, to local circumstances; more modest-sized businesses will have to raise their sights to wider, European horizons.

Even without the prospect of an enlarged community, the parameters for doing business are already changing. The recent creation – by the EC and the seven member states of the European Free Trade Association – of the European Economic Area establishes the world's largest free trade market.

Central and eastern European markets, despite the immense difficulties confronting businesses intent upon capitalising on the new freedoms of former communist states, *add yet another dimension to* the marketplace.

Small wonder that there is a growing *tendency for* companies to abandon the notion of the nation state and to think in European terms *for their* markets and regionally for their manufacturing, distribution and management facilities.

Still less surprising that companies from the world's most important trading nations, like the US and Japan, remain keen to increase their presence and participation in Europe, even if their efforts are temporarily subdued by liquidity pressures and recession.

The big inward investors are maintaining extensive inward investment programmes, *but* the decision-making process is being stretched and in such uncertain economic times there is a growing reluctance to push the button.

Much has also been made of the threat to Europe posed by *the economic power-house fast* emerging along the Pacific rim, with a ferocious rate of high-technology investment being notched up in places like Taiwan and South Korea.

The US might also be increasingly attracted to markets on its own doorstep once it signs a North American Free Trade Agreement with Canada and Mexico. But does that mean that Europe's best days for attracting global business are over?

"The idea that Europe as a location for corporate investment is somehow 'over the top' is ridiculous," according to Dr Wilfried Vossen, managing director of Plant Location *International, the location spe*cialists. "Europe is and will remain a huge market, with high education and skills levels and enormous consumer power. But it is certainly going to have to adapt if it is not to lose the international battle for *investment.*

"Europe is becoming a very expensive alternative to other investment locations and it is going to have to tackle many sacred cows, not least high social costs which can no longer be afforded and which make it very hard to create employment," adds Dr Vossen.

Such comments find a warm reception among critics of the EC social chapter in the UK, which has refused to sign up. The Institute of Directors recently described EC social legislation as a "misdirected and damaging job-destroying machine"; and the British government is now calling on EC members to reform their social *security systems in order to* cut the rising cost of employment. Germany's most recent experience would tend to support the theory. According to Mr David Rees, head of location advisory service at Ernst & Young: "There is now a flow *of outward investment from* German companies into other parts of the community as they migrate away from their own high costs".

German investment in the UK now ranks second behind the United States, with 51 investment decisions – involving 16,000 jobs – recorded in the year to April 1993 by the Invest in Britain Bureau.

THE UK has a lot at stake, given its record as the most successful European nation in the fight to attract inward investment. In the last decade, the UK is calculated to have taken nearly 40 per cent of all non-EC invest*ment made in Europe.* The country also accommodates about 30 per cent of all the Japanese manufacturing plants which have moved into the EC.

Past achievement, even so, is no guarantee of future success and now competition for for*eign investment is intense,* with France and Spain, for example, giving priority to attracting their share of available funds.

With the first wave of large, green field investment over, there may also be a temptation among many companies to spread risk by selecting a separate location for second generation projects. The type of investment may also change, with fewer green field developments and more attention paid to expanding or modernising existing facilities.

The driving factor behind much of the location activity now underway across Europe emanates from the search for economies of scale and the need to rationalise structures established when European markets were more fragmented – "the rate of consolidation under way is dramatic," according to Dr Vossen of PLI. "Companies are taking a long, hard look at manufacturing, distribution and managerial functions at European, national and company levels.

"It is not proving an easy task. We are talking about kingdoms being dismantled and everyone fighting to protect their own patches".

One inevitable, less welcome aspect of consolidation is plant *closure and some international* companies have notably failed to underestimate the problems and costs of shut-down, a process often subject to stringent national laws.

The image of footloose multinational conglomerates roaming Europe in search of short-term advantage is largely unfounded but Hoover's decision earlier this year to close its Dijon plant in France and locate all its vacuum cleaner production in Scotland provoked uproar. More recently, the tables were reversed when CPC (UK) decided to move production of its Knorr brand soups and cubes from Scotland, where it has been based for 30 years, to France and Italy. But how does a company decide where to go, when there are so many options and when mistakes can prove so costly?

Though Europe may present itself increasingly as a region which is interdependent and heading for economic convergence, it remains a widely diverse trading area, scattered with languages, differing employment laws and taxation regimes.

Market accessibility continues to be the principal driving factor behind choice of site but then peripheral locations may offer factors like lower labour *costs and better quality of life.*

The availability of financial incentives for inward investors, which vary considerably throughout the EC, is also emerging as an increasingly important factor, given the pressing need to limit cost. Not too long ago, the question of incentives came into the latter stages of the decision-making process; hard times dictate that more companies are now anxious to know from the outset where the best cash handouts are available.

■ INVESTMENT INTO THE UK – 1992-93

Investment decisions and associated employment by overseas-owned companies into the UK, 1992-93:

Country	Number of projects[1]	Jobs associated[2]
US	126	23,070
Germany	51	16,032
Japan	21	2,036
Switzerland	15	1,032
France	14	1,958
Netherlands	10	1,564
Sweden	10	1,019
Rest of Europe	30	5,601
Rest of the world	26	3,961
TOTAL	303	56,271

■ Over the last decade, the UK has held the record as the most successful European nation in attracting inward investment. Britain has taken nearly 40 per cent of all non-EC investment made in Europe. The UK also accommodates about 30 per cent of all the Japanese manufacturing plants which have moved into the European Community. See report on page two of this survey.

Footnotes – 1: Investment decisions (including first time investment, expansion acquisition and joint ventures); 2: Estimate of long-term employment associated with the project; but not every decision is accompanied by an employment estimate. Source: IBB

Countries in the European Community continue to attract a brisk level of inward investment

EC remains a powerful magnet

Inward investment activity from beyond the EC continues to be dominated by the US and by the Japanese, who are likely to maintain their predominant position, reports Michael Cassell

DESPITE the global recession, which has inevitably dented the flow of international investment funds heading for Europe, the EC remains a magnet for incoming, corporate investment.

The process of starting or expanding investment in Europe by companies based beyond its boundaries has become a more protracted business as economic uncertainties have multiplied.

But the evidence shows that, in the face of the growing threat posed by booming investment centres along the Pacific Rim, the sheer scale and sophistication of European markets guarantees for many of them a continuing, high level of inward investment.

Estimates suggest that the EC countries have, in the early part of the 1990s, been attracting in the region of $65-70bn of new, annual investment from beyond their boundaries.

The general expectation is that, after some reduction as a result of recent economic weaknesses, they will continue to attract a major share of all corporate investment activity.

The Americans - with around 30 per cent of all their corporate assets now located outside the US - are no strangers to investing in the EC and account for more than half the total foreign investment pouring in to the region.

But while there are no suggestions the US will cease to become a leading player in European corporate investment, there are pressures being brought to bear which will make EC nations a less obvious target for spending by American corporations.

The free trade agreement signed between the US and Canada, America's largest trading partner, and the new emphasis being placed on trade between Mexico and the US, mean that Europe is going to have to fight harder to claim its stake of North American investment.

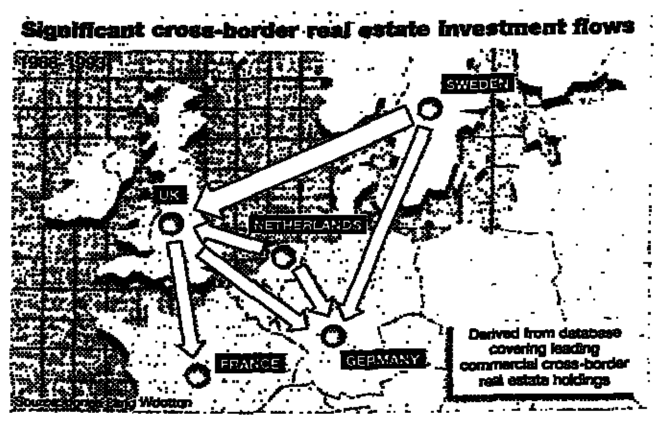
The Japanese have come comparatively late to overseas investment markets - a decade ago only 4 per cent of their total corporate assets lay overseas - but they have moved impressively to reach 15 per cent. After an initial period of heavy investment, however, most Japanese corporations have come under immense liquidity pressures and have moderated the pace of new foreign investment.

Even so, 20 per cent of Japanese overseas investment is ending up in Europe.

While most US companies appear to have positively based their decisions to locate in Europe on the scale and potential of the market, the Japanese seem, initially at least, to have been motivated more out of fear of being thwarted than by any renewal in protectionist sentiment.

Whatever the motives behind the investment decisions being taken, the favourite destinations for external investors are clear. The United Kingdom continues to account for around one-third of all inward investment into the EC, although the number of projects underway has fallen back recently.

Significant cross-border real estate investment flows



No other EC nation has so far come anywhere near matching the record of the UK, which now ranks as home for 37 per cent of all non-EC companies operating within the community.

Germany, despite its most recent economic and political problems, is still regarded as an important destination for inward funds but growing numbers of companies now regard the country as an extremely expensive and increasingly uncompetitive base from which to operate.

German companies themselves have been underpinning the perception by transferring away from their own, high cost, country into other parts of Europe.

The main beneficiaries have been the UK, France and Spain. But there is, equally, a perception that Germany is alive to its problems and that it will actively seek to protect the country's position as Europe's economic powerhouse, so maintaining the interest of foreign investors.

France, which has not always had the most positive image for attracting overseas investment, has also been performing better in attracting incomers, not least because of the political priority which the issue has now been given at the highest levels. *See report, page six.*

Belgium, which may have tended to expect its location at the political heart of Europe to stand it in good stead, is widely regarded to have lost out in the competition for inward investment, although it has now started to take the issue seriously. Holland, meanwhile, has pursued a very successful promotion strategy.

Despite its location on the very fringes of the EC, the Republic of Ireland has also continued to attract a sizeable share of available foreign manufacturing investment and, in relation to gross domestic product, has done as well as any other EC member.

Spain, too, has been proving increasingly attractive as investors watch it emerge as an important, open European market with a rapidly improving infrastructure.

Although there are always exceptions, the general patterns on inward investment tend to have matched certain categories of corporate investment with particular EC regions.

While the main investment activity in distribution has tended to be located within a belt which stretches from London, Rotterdam and Antwerp through Luxembourg, Metz and Nancy, European headquarters operations have concentrated on cities like Brussels, London, Geneva and Frankfurt.

Manufacturing activities by inward investors have been very widely spread throughout the community, depending on proximity to the ultimate marketplace for the products concerned.

The UK, Ireland, France and the Benelux countries have been taking the lion's share of available manufacturing investment.

Given the increasing competition within Europe and beyond for whatever investment funds are available, it is clear that only the most aggressive marketing and the most supportive "after-sales" operations at national or regional level can expect to succeed.

While the degree of financial help is important - available EC incentives average around 15 per cent of capital spend by inward investors - it has become clear that investors are equally concerned about the extent to which they can seek guidance and advice after they have made their decision to locate.

Some investors have complained that, while agencies have worked around the clock for months or years to attract companies, they have been left totally to their own devices once operations have started.

According to one location specialist: "Companies can feel very badly let down when they are feted, wined and dined – and then dropped after their arrival.

"Those responsible for encouraging inward investment must remember that investors may have chosen their patch once but that they have the whole of Europe to choose from next time.

"If they wish to maintain their inward investment, they have to build relationships which will last".

More than 3,500 US companies are located in the UK

Britain takes the lion's share

THERE is no argument about which EC member-state has been taking the lion's share of inward investment into the community. Britain has consistently seen off all competitors in the contest to win foreign direct investment.

Despite the political debate which surrounds the inward flow of foreign capital – is Britain's success in this respect a sign of its economic strengths or its exploitable weaknesses? – there can be no disputing its impact on the UK.

Britain's prowess at promoting its "open door" policy is confirmed by the statistics. The country has been taking as much as one third of all inward investment coming into the EC. There are now more than 3,500 US companies located in the UK, with 1,000 German companies and around 200 from Japan. By 1991, the cumulative UK share of all US investment made in the community had reached 36 per cent in value terms. The UK also accounted for nearly 41 per cent by value of all Japanese investment in the EC.

Last year, another 303 inward investment decisions were taken in the UK's favour, likely to involve around 56,000 jobs. In the five years until the end of 1992, 275,000 jobs has been created or safeguarded in Britain by inward investors.

In the manufacturing sector, overseas-owned enterprises investing in the UK now provide 27 per cent of net capital expenditure and 16 per cent of all UK manufacturing jobs.

Britain's attractions to potential investors include flexible working conditions, relatively low labour costs and, for many, a language and business culture which is easily adopted.

Though there have been some fears expressed about Britain's attitude to Europe, most surveys have confirmed that this has not damaged its chances of continuing to win new investment. Indeed, indications that Europe's competitiveness is under threat because of its relatively high social and employment costs could provide a further advantage to the UK as an EC member-state which has refused to sign up to the EC's social programme.

There has also been concern about the quality of investment being made in the UK by foreign companies. The arrival of so-called "screwdriver" assembly plants has not been greeted enthusiastically by critics, who complain of low labour rates and the failure of inward investors to import the type of technology which is badly required.

Supporters of inward investment, however, claim that the beneficial impact far outweighs any disadvantages. The argument is that, far from spawning fresh ranks of "slave labour", new investment creates more jobs, raises the demand for labour and, in turn, pushes up wage rates. In the final analysis, it is a brave critic who will reject the notion that any job is better than none.

A report on the knock-on effects of inward investment, commissioned by the Department of Trade and Industry, suggests that, apart from offering employment and training opportunities and new customers for UK capital equipment, the arrival of foreign companies can bring about significant quality improvements among suppliers and competitors.

At the heart of UK efforts to attract inward investment against a background of global recession and increasing competition from other locations is the Invest in Britain Bureau, part of the Department of Trade and Industry, which has been operating for 16 years.

The IBB, offering a free and confidential service, is the government's main inward investment promotion agency. It is the only body which represents the nation as a whole, as opposed to the numerous regional organisations and local agencies which champion their own areas. The IBB, which has helped more than 2,000 foreign investment projects in the UK, sees itself as the first port of call for any potential investor and the provider of "honest, accurate information", according to Mr Christopher Priston, director.

"We are not here to push companies in one direction, unlike some of our EC competitors. We enable investors to have all the facts and to make the best possible decision for them. To behave any differently would be counter-productive," he adds.

Apart from promoting the general attractions of the UK and providing detailed location information for individual investors, the IBB is charged with co-ordinating the efforts of the other, more localised promotional agencies.

The bureau has an annual budget of £5.5m to fund the English regional development organisations – Wales, Scotland and Northern Ireland are funded directly by the Treasury – and has its own £3m promotional budget.

Mr Priston rejects the notion that the English promotional effort would be better served by the creation of a single agency, as in the other countries which go to make up the UK – "I think we get the best of both worlds. England is a big patch to cover and we have some excellent local agencies, backed up by IBB at national level".

The IBB accepts that it faces a tough challenge in maintaining the UK record. In the year to April 1993, for example, the number of new inward projects confirmed for the UK declined again from the 1990 peak of 350 to 303, largely because of the recession-associated fall in investment activity.

The bureau expects the pattern of inward investment to change, irrespective of the future level of activity.

According to Mr Priston: "The big US companies are already here. There will be some continuing green field investment but we now expect smaller investments from smaller American companies wanting to take advantage of the single market.

"There will be few mega-projects from Japan but a second wave of investment likely to involve supplier and sub-contractor activities. We also expect some joint ventures, a route which the Japanese have not readily chosen in the past."

In response to complaints that inward investors are abandoned to their own fate once they have taken the decision to set up in the UK, the IBB has just started a follow-up programme which will entail visits to 1,000 companies this year. They will be asked if they have any problems and the IBB will endeavour to help if it can.

Michael Cassell

BUSINESS LOCATIONS IN EUROPE 3

■ WHERE TO LOCATE

The deciding factors

THERE is no such thing as the perfect business location – "whatever the ultimate decision, it always ends up as a compromise," according to Dr Wilfried Vossen, managing director of Plant Location International.

PLI, part of the Price Waterhouse group, has expanded quickly on the back of the immense complexities facing businesses increasingly forced to consider the best locations within Europe from which to manufacture, distribute and manage, writes Michael Cassell.

According to Dr Vossen, although the science of location has improved beyond recognition in recent years, many mistakes are still being made.

The consequences of getting it wrong can be calamitous,involving crippling financial costs and heavy damage to relationships with local communities and customers.

"Many important decisions are still being decided in head office, thousands of miles away from the action. Remote bosses come up with ideas which are not feasible. The local, Europe-based management can be excellent but the people upstairs are still inclined to think they know better."

Ernst & Young, which has its own location advisory service, also acknowledges that there are many long-held myths about European countries which can often cloud corporate decision-making.

According to "Regions of the New Europe", jointly produced by Ernst & Young and Corporate Location, the corporate investment specialist: "Clichés and stereotypes about countries and their customs can blind a corporate manager to a particular area's benefits.

"Governments and regional authorities are increasingly active in trying to play up their area's attractiveness to corporate investors.

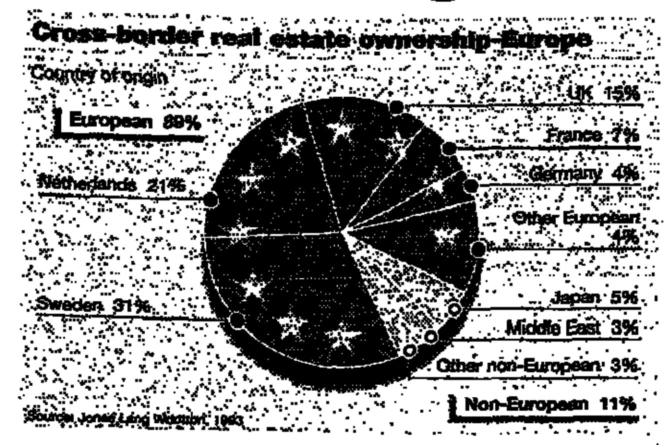
"For those companies seeking to set up a new facility it can be all too confusing as rival locations try to convince you that they are situated at the centre of Europe and are the best location for your business, regardless of activity".

Organisations like PLI and Ernst & Young insist, predictably enough, that no company is likely to have at its fingertips the breadth and depth of information necessary as a precondition of taking a decision on where to locate. Bring in the specialists, they suggest.

But the fact that even the very largest of multinational companies now resort to the help of outside consultants, at least during some stage of the process, suggests that they might have a point.

With giants like Ford Motor, IBM, Hewlett-Packard, Memorex, Mobil, Ricoh, Texas Instruments, Wellcome Foundation and Westinghouse all seeking external advice on the issue, the message is getting home.

Even the Japanese, who began cautiously by using location specialists to provide limited information to feed into their own decision-making structure, now increasingly delegate a growing proportion of location work to outside experts.



So what are the common fundamentals which any enterprise will have to consider before making a decision which could involve investment running into many millions of dollars?

Given that the company's overall strategy is clear, most experts agree that the single most important factor is market proximity.

Quality of transport infrastructure and information systems can have an impact on market accessibility but crude distances between supplier and end-market matter most.

It may be an obvious point but it is not the only one. The nearest location may well be the most populous and expensive, with high labour costs and skill shortages. Dr Vossen's "compromise" comes into play.

Labour costs themselves rank high up the list of comparative factors. But while the peripheral regions of Europe may offer the lowest manpower costs, what levels of skill and education come with them?

Productivity remains another key factor, with labour attitudes and performance varying widely across Europe.

So while some former eastern European countries might offer labour rates more usually associated with parts of the Far East and much closer market proximity, poor labour productivity might easily outweigh other advantages.

There is evidence, however, that improved productivity performances can be "imported" by the inward investor, who discovers there is little wrong with the available, local labour that more efficient machinery and good working practices cannot significantly improve.

Many other factors also come into play. PLI recently conducted a survey among more than 300 international companies to establish their priorities when choosing locations for various operational functions.

The survey demonstrated that the main priorities for consideration by potential corporate investors centred initially on operating and investment costs, followed by general and then more specific operating conditions in respective locations.

When it came to more detailed location factors, companies clearly demonstrated the crucial importance to them of good business communications. Respondents repeatedly put telephone, fax and data lines at the top of their shopping list, ranking their availability alongside any of the supposedly more important location factors.

A great deal of emphasis is also placed on the presence of a stable political situation and social climate, low labour costs and reliable power supplies.

Another vital ingredient in any location decision can be the availability or otherwise of investment incentives offered by a range of state and regional bodies.

The packages on offer vary widely, although given the restricted funds available in

Continued on next page

A rating of detailed location factors: what companies are looking for

In a survey of more than 300 international companies, the figures below indicate their priorities when choosing locations for various operational functions. The estimates are averages based on a rating of 0 to 10:

Availability and quality of telephone, fax and data lines	8.48
A stable political situation	7.91
Reasonable level of labour costs	7.68
Reliability of power supply	7.54
Market proximity	7.23
Healthy economic situation	7.15
A stable social climate	7.15
Availability of skilled workers	7.04

Source: Plant Location International

■ LOOKING EAST

Inroads to new markets

Europe's economic centre of gravity is rapidly moving eastward, writes **Anthony Robinson**

AFTER a decade when the inclusion of Spain, Portugal and Greece in the European Community pulled investment southward, the 1990s will be the decade of rapid growth and fundamental structural changes in the former centrally-planned economies of central Europe and beyond.

This eastward shift, and the prospect of decades of rapid economic growth similar to that experienced in most of western Europe during the 20-year post-war reconstruction boom, has profound implications for the future location of management offices and factories.

Berlin, for example, will once again be the capital of united Germany, although there are signs of a growing reluctance to accelerate the expensive removal from Bonn. This reflects the unexpected cost and difficulty of re-incorporating the five eastern provinces into the mainstream German economy.

The problems have arisen mainly because of the artificially high wage and other costs which followed the decision to exchange the East German mark for D-marks at par three years ago, and the drive to equalise wages although east German productivity remains far lower.

Under these circumstances the prospects for long-term economic growth in the region are probably highest in Poland, where wages are low and whose population of 39m ensures the largest single market in the post-communist central and south eastern European region.

This area encompasses 105m potential consumers, if Slovenia, the Baltic states, and the Balkan states of Romania and Bulgaria are included.

Poland will probably have the fastest growing economy in the whole of Europe this year after a 31 per cent decline in industrial production since 1989. The rise in industrial output exceeded 7 per cent over the first half of the year with labour productivity rising 11-13 per cent.

Hungary and the Czech republic will also resume economic growth this year after a hiccup caused by two years of drought in Hungary and dislocation stemming from their January divorce which has retarded growth in the Czech republic and Slovakia.

Budapest: one of central Europe's most attractive capitals

Throughout the region, the locations which are showing the fastest economic growth and the greatest attraction for foreign investors, are those which are closest to Germany and other European Community markets.

For example, Szceszin, which as the former German city of Stettin, was developed as Berlin's main outlet to the sea, is rapidly developing as a regional centre for the western Baltic. It is attracting investment from Germany and the Scandinavian countries with whom it is linked by fast and frequent roll-on-roll-off ferries.

THE Gdansk-Gdynia port complex is another focus of rapidly increasing cross-Baltic trade with good prospects for benefiting from the eventual revival of trade with the Baltic republics and St Petersburg.

But the most important factor likely to affect future location decisions is the speed with which Poland's ambitious motorway building plans are implemented.

Already, the bulk of German investment in Poland has been concentrated in towns like Poznan and Wroclaw. Both are to be found along the axis of the two new east-west motorways which will make Poland a cross-roads of east-west and north-south traffic in the early years of the 21st century.

Longer term, such highways will dramatically improve the economic prospects of towns like Lodz. This depressed textile town, south west of Warsaw, will soon find itself at the junction of the main east-west motorway and the north south route from Gdansk to Czechoslovakia and beyond.

Meanwhile the divorce from Slovakia has underlined the westerly location of the Czech republic which juts like a wedge into prosperous Germany and Austria where wages are up to ten times higher than Czech rates.

With its low foreign debt and long industrial traditions, within a decade the Czech republic will become as closely linked to the German economy as Austria and Switzerland.

Longer term, the core central European economies of the Czech republic, Hungary, Poland, and Slovakia, together with the former Yugoslav republic of Slovenia will also play a key role in extending the market-orientated, consumer-led transformation of the former communist world further east.

Initially, the experience of economic transformation in central Europe will help speed the development of Romania and Bulgaria, whose future economic health is also linked to the growth of trade and investment in the Black Sea region. Here, Turkey is carving out an important role for itself. Indeed, Istanbul and Ankara are rapidly becoming key locations for those interested in developing trade and investment in the oil and resource-rich central Asian republics of the former Soviet Union.

Strategic investors in central Europe such as ABB, the Swiss-Swedish power engineering company, Siemens and AEG, are planning to use their new Hungarian, Czech and Polish acquisitions to supply markets further east which were formerly part of the now disbanded Comecon market.

In the case of Yugoslavia, Slovenia will have a particularly important role in helping the reconstruction of the war-torn Croatian and Serbian economies.

For western companies, this will increase the attractiveness of Ljubliana, the Slovene capital. Until now, however, Hungary, which began tinkering with market reforms in the 1960s and enjoys close historical links with Austria, has been the main recipient of inward foreign investment. It has attracted over $5bn of the $9-$12bn of foreign equity investment which has flowed into central Europe over the last four years.

Most of this foreign investment, including the new car and engine plants put up by General Motors, Audi/Volkswagen and Suzuki of Japan, has been located either in the Budapest area or inside Hungary's so-called "golden corridor."

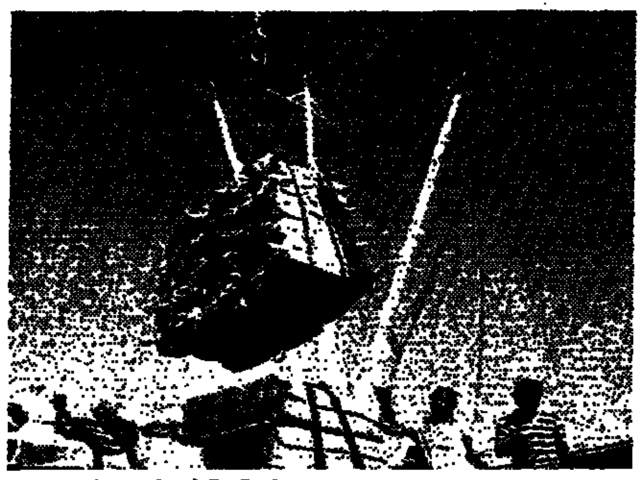
This corridor runs westward out of the capital along the main rail and motorway links to the Austrian border, encompassing industrial cities like Gyor and Esztergom.

Budapest, which straddles the Danube as it passes the wooded Buda hills, vies with Prague for the title of most beautiful capital in central Europe, and the most expensive. It shares the universal regional problem of poor telecommunications. But the telephones are particularly bad in Prague, despite the fact that the Czech capital is 200kms further west than Budapest or indeed Vienna. This handicap will disappear as the projected heavy investment in telecommunications bears fruit.

The Mediterranean region has much to offer investors

Southerly attractions

Malta: the Grand Harbour, Valletta



Cyprus: a key regional distribution centre

ON DARK winter mornings in Birmingham or Dusseldorf, how many businessmen wish for something different in terms of office or factory location?

The idea of working in a more agreeable climate must be attractive to company managers when they peer down headlight beams in peak-hour traffic on motorways and autobahns.

Many businessmen would probably prefer to be elsewhere as their cars' wipers clear snow, sleet or drizzle from their windscreens. And where better than the Mediterranean?

But it is not only the climate and the accompanying lifestyle, enhanced by the cultural and historical heritage of Mediterranean countries, that makes them attractive for companies setting up or expanding their activities in Europe.

Mediterranean Europe enjoys a strategic geographical position, looking north towards its own continent, as well as south towards Africa and East towards Asia.

In addition to serving European markets, factories and offices on the Mediterranean's northern side are well placed to cover North and East Africa and the Near and Middle East.

However, climate, lifestyle and geography are not enough on their own.

In taking decisions on where to site facilities, companies must evaluate many other factors: the availability and cost of skilled and unskilled labour, quality of services, infrastructure, administrative structures and regulatory/legislative frameworks, political stability and incentives.

How do Europe's Mediterranean options measure up?

● **Spain:** A leading beneficiary of inward investment in its manufacturing industry, statistics show that Spain is the world's fourth largest recipient of direct foreign investment.

Last year's \$10.3bn followed \$11.6bn in 1991, \$12.3bn in 1990 and \$6.8bn in 1989. Over this period, Spain received more than twice the foreign direct investment in Italy.

Spain owes its success in attracting foreign business to several factors.

With a population of about 38m, Spain brought a large new market when it entered the EC at the beginning of 1986. Many foreign corporations wanted to be close to sales and have established operations in the country.

The abundant supply of skilled and unskilled labour is an attraction. Over 18 per cent of Spain's workforce was engaged in agriculture in the mid-1980s, offering a pool of labour for factory work.

While the agricultural workforce had fallen to just below 10 per cent of the total last year, the high level of unemployment suggests that supply constraints should not be a problem.

However, Spain's advantage in direct and indirect labour costs has been eroded over recent years, and labour legislation is not market-orientated.

IF the Spanish labour factor has lost some of its attraction, developments in infrastructure have enhanced the country's appeal for inward investors. Road and rail networks have been extensively modernised and expanded, and air services improved. Considerable importance has been placed on upgrading telecommunications.

Part of the EC's relatively less-developed southern rim, Spain offers a significant level of investment incentives.

Only a few areas of the country fail to qualify. Incentives are available from various sources (the state, local authorities and the EC). Some are targeted at specific industries.

Spain's international image received a boost last year when Barcelona hosted the Olympic Games, Madrid held the title of Cultural Capital of Europe and Seville was the location for the Universal Exhibition.

With the coverage given to Barcelona and Seville, few businessmen could have been unaware of Spain when listing alternatives for new factories and offices.

● **Italy:** Across the sea from Barcelona, Genoa also put on a major event last year. However, the 500th anniversary of Columbus's discovery of the Americas was overshadowed by political and economic events.

Attendance at Genoa's fair was disappointing. Moreover, investigations after its closure revealed that it had been caught up in Italy's massive *tangentopoli* ("kickback city") institutionalised corruption scandal.

Tangentopoli, which has seen foreign companies in the magistrates' net, has revealed an almost total absence of corporate ethics.

But this is only one of several factors to discourage potential direct investors from choosing Italy.

The Sicilian Mafia and its Calabrian and Neapolitan cousins is another. Although there seems to have been progress against organised crime this year, memories of the car-bomb assassinations of two leading magistrates last year will take a long time to fade.

Italy's standing has taken a series of knocks, this summer's crisis at the Ferruzzi-Montedison Group and the liquidation of the EFIM state-holding corporation providing further examples.

More than a year after the liquidation decision was taken, EFIM's creditors are still awaiting payment from the state. Also in the queue for government money are businessmen who have invested in assisted areas and have not received promised grants.

The crisis in Italy's public sector finances means that the state is no longer able to honour its commitments. Officials say that all incentives approved will eventually be paid, but that time is needed.

However, the uncertainty over capital grant payments that has been a feature of Italy's regional development incentives for many years is now joined by uncertainty of the development framework itself.

Officials say that a new approach will ration and target incentive finance. Companies will have to submit projects to the Ministry of Industry which will rank them on the basis of evaluation criteria.

With the Mezzogiorno (the south) now showing severe cracks in public order, in addition to suffering from organised crime, it is questionable that it will be a strong contender for foreign investment.

Distance from main European markets and public services that creak even more than in the rest of Italy have always been a handicap.

Central and northern Italy will continue to offer interesting locations, being close to markets and enjoying better services. Particularly north of Tuscany, the strengths of the country's versatile and flexible labour force are evident, although inflexible labour laws and high labour costs are a severe disincentive. But how Mediterranean is Milan?

● **Greece:** There is no doubt about the Mediterranean character of Athens and other Greek cities, albeit the Levantine flavour is very different from Rome and Barcelona.

Greece is also different in other respects, being more competitive on labour and other costs. The country has a longer membership of the European Community than Spain, having become a full member at the beginning of 1981.

LIKE its Spanish and Italian Community partners, Greece also tries to attract inward investment. Substantial infrastructure projects are underway to encourage this.

Law number 1892, enacted in 1990 by the then newly-elected New Democracy liberal government and ministerial circulars and directives, provide the framework for encouraging investment in industry and tourism. The levels of incentive (grants, tax and accelerated depreciation allowances) depend on the prefectures where the investment is located. However, the whole of Greece is open to foreign investment.

● **Malta:** Located in the centre of the Mediterranean, 100km from Sicily and 300km from the African coast, the small (250 sq km) island of Malta has been making large efforts to attract foreign investment. Measures such as the Industrial Development Act, the Malta International Business Act and the Offshore Trust Act, passed five years ago, are designed to boost foreign business activity in the republic.

The emphasis given to electronics, robotics and pharmaceuticals manufacturing has yielded results. De La Rue, Dowty and SGS-Thomson are among those present. However, Malta also has ambitions to develop as an offshore business and financial centre.

The authorities consider that the combination of suitable legislation, strategic position, good services and infrastructure, and low costs should put Malta on short lists when foreign companies are considering new locations.

● **Balkans:** While the former Yugoslavia has been struck off lists of alternative locations, and seems unlikely to be re-admitted soon, Albania is a different matter.

The government wants to encourage foreign investment, and enacted legislation to this effect in August last year.

A diplomat with close knowledge of Albania says, however, that problems over land tenure are a brake on foreign investment, and so also are Albania's own cash shortages and lack of a banking system.

Foreign exchange operations are usually through street dealers off the main square in Tirana.

Albania is certainly a low cost country and this has attracted Italian businessmen wanting to escape the higher costs at home. However, it offers little at present for leading international corporations. The diplomat says that in a few years "Albania should be a real alternative."

But businessmen will have to wait several decades before Tirana and Durres offer that attractive Mediterranean lifestyle that sets the Birmingham commuter day-dreaming.

David Lane

Focus on the island republic of Cyprus

Mixing business with pleasure

TRAVELLERS with Cyprus Airways are left with few doubts about how many see the republic's vocation. The current issue of the airline's *Sunjet* in-flight magazine contains five-and-a-half pages of advertising from accountancy firms and several more pages from banks, insurers and business management services, reports David Lane.

This year nearly two million tourists will have enjoyed the sun, sea and sand of Cyprus's resorts, and perhaps discovered some of the island's other attractions.

Those holidaymakers willing to mix business with pleasure, or looking for entrepreneurial opportunities, are urged by Deloitte & Touche to discover financial Cyprus. And Grant Thornton member Costouris Michaelides tells *Sunjet* readers that "nobody gets closer to offshore clients."

Offshore operations is an important and growing sector of the economy – "last year, the Central Bank issued permits for the registration of 2,039 offshore enterprises, a record number," says George Georgiou, an official with the International Division.

By the end of last year more than 10,000 had been issued, about 4,000 of which were in the past three years.

"Not all the licences are active. But over 1,000 companies have offices, while between 400 and 500 are brass plate operations," adds Mr Georgiou.

Gross foreign exchange revenues from offshore enterprises have doubled during the past five years, reaching CYP95m last year – "this was about 6 per cent of foreign exchange earnings," he adds.

The Turkish invasion and occupation of the northern part of the island in 1974 was a stimulus for turning Cyprus into an international business centre.

The first incentives were introduced in 1975 with enactment of legislation on income tax and exchange controls.

Corporate profits are taxed at 4.25 per cent and expatriate employees working for offshore enterprises enjoy tax privileges.

Pointing to the republic's 19 double taxation treaties, Mr Georgiou emphasises that Cyprus is not a tax haven – "the authorities vet applications carefully. Reporting requirements and administrative procedures are strict, and good corporate conduct is a condition for permit renewal. Scandal-avoidance is the watchword."

Continued on facing page

The crucial factors

Continued from previous page: many countries and regions, success can depend on how well the applicant company argues its case.

In most countries, factors determining the level of grant will include the number of jobs created, the degree of export business generated and the high-tech content of the particular process. Dr Vossen says: "Before an investor gets to an appraisal of incentives, there may be 20 technical chapters and numerous cost-structure considerations to go through. Only then will available incentives enter the equation, though they can certainly prove critical in the final decision-making process."

But the pattern has been changing. Given the recession and the continuing drive to reduce investment costs, potential inward investors are tending to look at the extent of financial help available from outside agencies at a much earlier stage in their calculations.

More than ever, the financial help on offer locally will help decide which parts of the community prosper from the next wave of corporate investment.

■ PLANNING A MOVE

Where to go for expert help

Cross-border moves by businesses often run into big problems. Yet good advice on avoiding potential pitfalls is not hard to find: it just depends on investors accepting that they need guidance, reports David Lawson

JOE Lister was sure he knew the man in the Dusseldorf restaurant – which seemed absurd, as he had only flown in from the US that morning.

Another couple of faces at the table also started to look vaguely familiar.

He was too busy negotiating with an agent over the cost of office equipment to investigate further, but the puzzle was solved a few days later in a local bar after a hefty thump on the back and deafening shout.

"They were old Army buddies I had not seen in years," he says. "Like me, they were setting up German outlets and we had all chosen our old stamping ground. We were stationed together nearby in the 1960s".

Every consultant dedicated to preaching the science of location analysis has a similar story to tell: the Japanese entrepreneur who checked potential sites against a map of Europe's top golf courses; the British chairman who insisted on a distribution centre conveniently close to a Riviera marina where his yacht was berthed; and an Italian who rejected several suggested cities because the hotels and shopping did not impress his mistress.

But most of the 200 or more of the leading inward investments to Europe each year are a lot more scientific, according to Stephen Bradley of Plant Location International, a subsidiary of Price Waterhouse.

Around half call in specialists to organise the whole project and the rest usually farm out at least some of the tasks, ranging from acquiring multi-million-dollar buildings to advising on the right car to drive in Spain.

"The worst problem is when a group gets half way through a project and then finds it can't handle it," says John Straut, of Ernst & Young's European Location Advisory Service.

"Sometimes you have to push them back to square one, questioning whether they are even looking at the right areas."

Big international management groups have been handling cross-border investments for decades but the tempo has accelerated in the last couple of years.

Both PW and E&Y dealt with around 30 or 40 developments each over the last 12 months as companies rush to set up inside the Single Market or find new outlets in eastern Europe.

Other advisers are also treading on their heels for a share of this expanding market, however. Property consultants have built networks of offices around Europe which can be tapped for the cross-border acquisition of sites and premises.

Richard Ellis, for instance, has just developed a master plan for Hewlett-Packard's properties in Milan and bought a new headquarters site for L47bn.

The Corporate Property Group also helps companies moving into the UK by helping choose locations and negotiate with local authorities and arrange finance.

Jones Lang Wootton claims to have broken the traditional link with landlords and developers to act purely in the interests of occupiers – "when a company asks us to recommend a location, we are not looking to buy or sell buildings on our books but to find the best deal," says Andrew Burt, of JLW Corporate Real Estate Services.

They also go further than rents and prices, delving into other factors such as labour costs, housing and schools.

His team is currently drawing up an appraisal of Lisbon, looking at facilities, such as restaurants and hotels.

Another client aiming to set up a software centre wants information on universities which would provide a stream of graduates.

Finance is another significant factor where advisers can prove invaluable. Every European country has an army of official information centres, ranging from individual towns through government development agencies to a network of European Commission offices dedicated to offering the best deal on grants, incentives and loans.

Trying to work out the best deal can be daunting, however – "it can be crucial, for instance, whether you choose to locate on the Swiss side of the Italian border or vice versa," says Mr Bradley.

Grants and incentives are so fiendishly complicated that Price Waterhouse's guide is more than an inch thick and needs updating each two years.

A more immediate source of costs and incentives for each region called Eurosite is held by PLI on a computer database.

INDEPENDENT researchers also feed in a growing body of information. Companies can compare the expense of *keeping staff in various locations* through indices for every major city compiled by the PE Centre for Management Research.

It also produces and constantly updates guides to salary levels and European personnel policies.

"A successful move often depends on detailed knowledge of non-financial matters such as whether you need to pay maternity benefits in Spain, where to get health care in St Petersburg or how to deal with industrial tribunal procedures in Switzerland," says Anita Saunders of Hamptons Relocation, which will be providing house-price information for the PE cost index this year.

Such legal and cultural quirks are constantly on her mind as she deals with the least predictable factor in cross-border investment – people.

Most of the leading advisers farm-out movement and resettlement of staff to specialists like Hamptons because they just cannot handle the variety of demands, and strong emotions, involved.

Finding the right home, the right schools, perhaps the right golf courses – and simultaneously pleasing a spouse who might not be thrilled about moving – requires endless diplomacy, tact and patience.

You may have to tell an executive that driving a flashy company car is not the done thing in Spain. His wife might need similar persuasion not put too much importance on the marvellous kitchen which attracted her to a Turin apartment; the Italians often take such fittings along when they move.

Many cross-border moves turn into a disaster - and two-thirds of those failures are because businesses choose the wrong location, says Mr Bradley. Yet advice on avoiding the potential pitfalls is not hard to find: it just depends on investors accepting that they need guidance.

Rediscovering your Army buddies or playing on the best golf course in Europe rarely balances out the cost of a false move.

● WORKING TIME REGULATIONS

Country and maximum hours in a working week; with figures on the right to show the maxium overtime allowed:

Austria, 40 hours	60 hours a year
Belgium, 40 hours	65 hours in three months.
Denmark: no legislation	no overtime legislation
Finland, 40 hours	20 hours per two-week period
France, 39 hours	130 hours a year
Germany 40 hours	60 hours a year
Greece, 40 hours	150 hours a year
Ireland, 48 hours	240 hours a year
Italy, 40 hours	no overtime legislation
Luxembourg, 40 hours	two hours a day
Netherlands, 48 hours	12 hours a week
Norway, 40 hours	200 hours a year
Portugal, 44 hours	160 hours a year
Spain, 40 hours	80 hours a year
Sweden, 40 hours	200 hours a year
Switzerland, 45-50 hours	350 hours
UK, no legislation	no overtime legislation

Sources: EC and national governments

Base for shipping

Continued from facing page:

What types of business chose Cyprus? General trading, marketing, distribution, regional management and consultancies are high on the list.

Coca Cola, re-locating its Near East offices from Cairo, is an example. Journalists and news agencies whose Cyprus bureaux cover the Near and Middle East, are another.

However, shipping is particularly important. There were nearly 100 ship management and maritime services companies operating in Cyprus at the end of last year, and they accounted for about one fifth of the total of 4,100 staff employed by the Republic's offshore enterprises.

With 1,700 ocean-going vessels (totalling about 23m gross tons registered under the Cypriot flag), Cyprus is near the head of global shipping rankings.

Mr Serghios Serghiou, director of the Department of Merchant Shipping, notes that Cyprus was historically a maritime power. Indeed, its ships are mentioned in the Iliad. However, today's position owes little to tradition.

"When Cyprus became independent in 1960, the *government looked for sectors* of relative advantage that should be developed, and shipping was identified.

"The republic's first merchant shipping laws were enacted in 1963 and, like subsequent legislation, were modelled on UK laws," says Mr Serghiou.

DEVELOPMENTS at the end of the 1970s underlie Cyprus's rise in the international shipping league. After incidents involving Cypriot-flagged vessels, the authorities acted to strengthen regulation of the shipping sector, Mr Serghiou's Department being established in 1980.

"Our 16 surveyors and maritime offices in Piraeus, London and New York demonstrate the authorities' determination that Cyprus should be a flag of prestige, not of convenience.

"Enhancement of safety standards is an objective. Though operating an open registry, Cypriot regulations aim for best maritime practice in vessels carrying its flag," says Mr Serghiou.

The republic's favourable tax regime is the determining factor for shipowners and for third-party ship management companies. But there are other reasons why Cyprus has been chosen by the shipping industry and by many companies in other sectors.

The island's position at the junction of Europe and Asia, and close to the Suez Canal, gives a strong geographical advantage. Good air connections and excellent telecommunications also draw business.

Competitive rents and costs of labour and services *earn* points for Cyprus when location decisions are being made. And a population with a high level of education, plus an efficient civil service, have also helped to consolidate *Cyprus's popularity* as an international business centre.

Though it has been successful in establishing itself as an offshore and shipping centre, Cyprus has difficulty in attracting investment for manufacturing. Restrictions on foreign ownership are a handicap. But there is an exempt Industrial Free Zone in Larnaca for manufacturing for export, and derogations can be made for some inward investment projects – "our need for a *more diversified* economy and for technological upgrading in manufacturing has been highlighted by the slowdown in growth," says Mr Andreas Charalambous, of the planning bureau.

He mentions that the government established the Institute of Technology last year with the aim of raising the technological content of goods manufactured in the republic.

"We are squeezed between developing and developed countries. We need to shift to higher added value in manufacturing, and to compete on quality rather than cost," says Mr Charalambous.

Like other officials, he underlines the republic's commitment to an open, free market economy.

RELATIONS with the EC, whose members currently take 60 per cent of Cypriot exports and with whom a customs union will be completed by 1997, are a central priority. Cyprus has applied for membership and the Commission gave a generally positive opinion this summer. Meanwhile, the republic's economic indicators outshine many EC states. Growth has been strong, and the current account generally in equilibrium.

Though the budget deficit and debt service ratios are low by EC standards, the government is nevertheless planning to strengthen the fiscal accounts – "this will permit liberalisation of commercial bank lending rates which are currently subject to a 9 per cent ceiling," says *Mr Charalambous.*

Removing this constraint should help the authorities to check inflation, which has been on a steadily upward trend, albeit still only 6.5 per cent last year.

With per capita GDP of $11,281, Cyprus has a key indicator in-line with EC aspirations. But there are reservations among future EC partners about the political situation.

Since the Turkish invasion, the island has been divided by the 'Green Line,' policed by UN troops. The EC would like a return to normality; however, the division has not been a deterrent to the many foreign businesses that have chosen the island republic. *Concerns about security*, large or small scale, appear to weigh lightly on businessmen.

Notwithstanding the UN peacekeepers, the social climate is relaxed – and the fact that street crime is not a problem is evidenced by the local practice of leaving cars unlocked.

In a corner of the Mediterranean that has been characterised by conflict, lack of infrastructure and inefficiency, Cyprus offers a haven of tranquillity and functionality.

ECONOMIC INDICATORS
Figures for 1992 (with projections for 1993 in brackets):
☐ Real GDP growth: 8.5 per cent; *(1.0 per cent).*
☐ GNP per capita, $11,683; ($11,281).
☐ Unemployment rate: 1.8 per cent; (2.5 per cent)
☐ Inflation: 6.5 per cent; (5 per cent).
☐ Budget deficit (percentage of GDP): 2.2 *per cent*, both years.
☐ Offshore companies maintaining offices in Cyprus: 988; (1,090).

BUSINESS LOCATIONS IN EUROPE 6

THE OLIVE groves of Provence are not the most obvious location for one of Europe's most successful business parks, yet nestling among the hills behind Antibes on the Côte d'Azur is Sophia-Antipolis, a Silicon Valley-style concentration of hundreds of production plants and offices.

Sophia-Antipolis is the sort of business park that governments tend to like best.

It was founded as a science park in 1969 on a rocky patch of the Provencal coast where the quality of the soil was so poor that even the lowliest local farmers disdained it.

The patchy piece of Provence now houses 900 different companies spread across 2,300 hectares.

Most of its occupants are subsidiaries of large multinational groups. Many of the employees are senior executives or skilled technicians who have been brought in from different regions. But the companies at the park have also created thousands of jobs for local residents.

Sophia-Antipolis is an expensive place to operate. The rents are high and each occupant is obliged to respect strict planning controls such as height restrictions and tree replacement.

Yet, even at a time of widespread European recession, there is a waiting list of would-be new occupants and Sophia-Antipolis is now regarded as a role model for business and science parks throughout Europe.

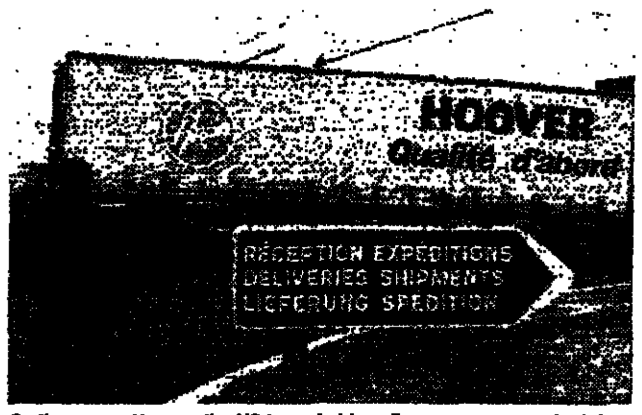
The pros and cons of Sophia-Antipolis as a corporate location are, in many ways, remarkably similar to those of France itself. Both offer the advantage of good logistics and a high standard of living, but are burdened by the disadvantage of comparatively high costs.

One of the main attractions of France to incoming businesses is its position – bang in the middle, between northern and southern Europe.

Only a few years ago it looked as though the expansion of eastern Europe might make more central countries, such as Austria or Germany, more attractive. But those fears have abated – partly because the challenge of rebuilding eastern Europe has been so much more complicated than expected and partly because the cost of operating in Austria and Germany can be even higher than France itself.

France: the high price of property deters potential investors, reports **Alice Rawsthorn**

Many advantages – except the cost factor



On the move: Hoover, the US household appliances company, cited the high cost of operating in Dijon, eastern France as one of the main reasons for switching production to Scotland. Picture: Gerard Carles/AP

Cordis, a US-owned medical products company, set up a production and distribution centre at Sophia-Antipolis in 1984.

It has operated in Europe for 25 years from its original base in the Netherlands, but decided in the early 1980s that it needed another base which would be more accessible to southern Europe.

The company opted for Sophia-Antipolis, according to Mr Jacques Le Guillerm, chief executive, mainly because it was in a pleasant environment and close to an excellent airport.

Ease of access was also one of the main reasons that Disney, the US entertainment group, chose France as the location for EuroDisneyland, its extravagant theme park.

EuroDisneyland may have had more than its fair share of financial problems since its launch in spring last year, but Disney has repeatedly defended its choice of northern Paris as the park's location.

"The choice of France as the location is one thing that I'm sure we got absolutely right," said Mr Michael Eisner, Disney chairman.

The high quality of life in France is another factor that tends to tempt companies to choose it as a business location.

Tepar, another occupant of Sophia-Antipolis, is the sort of company that could be based anywhere in Europe.

It is a joint venture between five international oil groups, including Texaco of the US and Elf Aquitaine of France, that operates a pan-European payment card for truck drivers.

The only considerations for Tepar in choosing its location were good communications - its executives need to travel regularly and it needs access to a sophisticated computer system – the availability of multi-lingual staff to staff its truckers' helpline and there is a pleasant environment for its employees.

Mr Carl Clump, its British chief executive, says that southern France satisfied all those criteria. He commutes to his Sophia-Antipolis office from his home in rural Provence.

However, France has a significant disadvantage as a business location: cost. One of the main areas of high expense is property, which is still costly even after the recent fall in Paris property prices. Moreover, French local government is so bureaucratic, particularly in areas such as planning, that any company investing in France has to deal with a barrage of rules and regulations.

THE employment system is also costly and complex. French workers generally get a reasonable deal in terms of pay and employment protection. They have a 39-hour working week and guaranteed minimum wage, the Smic or *salaire minimum de croissance* of FFr5,900 a month. Employers are obliged to make substantial social security contributions for their workers and to observe a relatively low retirement age of 60.

Further, the French trade unions are still comparatively strong - particularly when it comes to defending members' interests. This scenario of high costs and a potentially stroppy workforce undoubtedly deters some companies from investing in the country.

This factor has even persuaded some businesses that are already there to switch to less expensive locations. Earlier this year, Hoover, the US household appliances company, cited the cost of operating in France as one of the main reasons for its decision to switch part of the production at its Dijon plant to a factory in Scotland. France's new centre-right government has responded by trying to make the employment system more flexible.

Mr Michel Giraud, employment minister, recently unveiled a package of proposals which included reducing employers' social security contributions for low paid workers, replacing the 39-hour week with a more flexible annual equivalent total and measures to encourage part-time working. It remains to be seen whether Mr Giraud's measures will succeed.

In the meantime, Sophia-Antipolis shows no sign of suffering – it is now in the throes of doubling in size to try to accommodate its prospective new occupants.

Regional labour costs compared

If the European Community's average figure for labour costs is taken as 100, then the figures for individual regions and countries are as follows:

- ☐ Under 80: Spain, Portugal, Greece, Scotland, Northern Ireland; and some parts of the UK, such as the East and West Midlands, Yorkshire and Humberside.
- ☐ 80-100: Wales; parts of the north of England, the north-west, south-west, south-east, East Anglia; also Ireland; Austria; most of Italy; in France – most of the south-west, south and eastern regions; Belgium; the northern area of the Netherlands; Canary Islands.
- ☐ 100-120: Finland; Sweden; Bavaria; northern Italian regions; Lombardy; Lazio; the western Netherlands.
- ☐ 120 and over: parts of northern France – the Paris Basin, Ile De France; also Norway; Switzerland; some west German regions, such as Lower Saxony, North Rhine-Westphalia, Rheinland Palatinate and Baden-Württemburg.

Sources: Ernst & Young; US Dept of Labor; Eurostat.

Rubble but not war: a worker picks his way through piles of rubble from buildings once under construction in the centre of Berlin. The former East Germany had planned a shopping complex along the Friedrichstrasse, but investors were unwilling to finish the project after German reunification – and the buildings were torn down. In the background is the restored German Cathedral. Picture: Axel Kull/AP

■ GERMANY

The allure fades

The cost of employing workers in western Germany looks especially high compared with the cost of labour in the fledgling democracies of eastern Europe, reports David Waller from Frankfurt.

TEN DAYS ago Chancellor Helmut Kohl told the flower of Germany's business and financial establishment, assembled in Frankfurt to watch Mr Hans Tietmeyer being anointed as the new chairman of the Bundesbank, that a "stability-oriented" monetary policy was the best long-term guarantee for German growth and jobs.

In the long-term, low inflation and a stable D-mark may indeed preserve the attractiveness of Standort Deutschland – Germany as a place to do business. But German industry, currently struggling amid the country's worst recession since the second world war, may be forgiven for judging high short-term interest-rates and a strong D-mark – the direct consequences of the Bundesbank's stability policy – as factors which diminish rather than enhance Germany's attractions as a business location.

On the very day that Kohl was speaking in Frankfurt, newspapers carried the story of Daimler-Benz's decision to build a factory for its Mercedes-Benz automobile subsidiary in the town of Vance in Alabama in the south-east of the US. Following moves by other German companies to set up manufacturing facilties abroad, this came as a graphic reminder of the disadvantages of Germany as a business location.

Taxes are high – taxes and social contribution levies are set to rise to a record 44 per cent of western German GDP by 1995, reflecting the planned introduction of a higher mineral oil tax, higher contributions to pensions insurance, a new solidarity levy, increased wealth tax.

Wages are also high. The reunification of the two Germanies in 1990 brought about a boom for western German companies. Wages were increased as if these *'boomartig'* conditions would carry on for ever: but the special economic circumstances brought about by reunification died away suddenly in the last half of 1993. The world recessionary cycle caught up with a vengeance and GDP for the west of the country will fall by 2.25 per cent this year - the worst recession in Germany's post-war history – "there are not many things to make Germany attractive at present," sums up Mr Joachim Fels, an economist at Goldman, Sachs in Frankfurt. "Geographically the country is at the heart of the European Community and the new markets in eastern Europe. But against this you have to weigh the fact that costs are too high, in particular labour costs.

"German labour used to be highly productive, and the workforce remains highly educated and used to working in a high-tech manufacturing environment. But both direct labour costs and indirect labour costs – such as payroll taxes and social services contributions – are very high. Can productivity keep up with the rise in costs? The answer is no: unit labour costs are too high."

The cost of employing workers in Germany looks especially high when one takes into account the cost of labour in the fledgling democracies of eastern Europe.

The quality of workmanship in Hungary or the former Czechoslovakia may not be up to Germany's fabled levels: but it does come considerably more cheaply. Goldman Sachs calculated in early 1992 it cost an average of DM6,575 to employ a worker in western Germany – compared to DM662 in Hungary, DM401 in the former Czechoslovakia and DM367 in Poland.

TO illustrate what this means in practical terms, KPMG Management Consulting has put together a case study focussing on a proposed £100m project to build new television manufacturing facility. The company is seeking a greenfield site to build a modern factory which will produce 500,000 units a year and employ 1,225 people.

Key criteria for chosing the investment location are costs; access to new growth markets – one of which is the east of germany – together with dependability of production and supply of components and sub-assembly.

Initial calculations show that labour costs for the factory would amount to nearly £45m a year in Germany, £35m in the Netherlands, about £25m a year in the UK and Ireland and about £3m a year in Hungary. Set against this is the distance from the manufacturing site to the companies main markets, weighted by market size. Taking the UK as 100, Hungary rates as 145 whilst Germany and France are at around 95.

KPMG then assigned weightings to these and other criteria – the question of labour costs being five times more important than market proximity and research capability. Hungary emerges as nine times more attractive than the UK, its nearest competitor. Taking the UK as 100, Hungary achieves a score of 450. France and Ireland also score 100. Germany is the least attractive manufacturing location, with a score of about 70.

A short-list of three locations is drawn up: Manchester in the UK, Düsseldorf in Germany and Budapest in Germany. At this stage the assessment of the relative merits of the three possible sites becomes more refined, taking into account qualitative factors such as sub-suppliers, working practices, productivity, health, unionisation, manufacturing's share of the country's GDP, as well as proximity to markets and research capability.

It is clear that according to these qualitative considerations, Hungary is not as attractive as Germany or the UK. But factor in the costs and Germany remains the least attractive of the three: in pure profits terms KPMG calculates that the factory in Düsseldorf would make an annual after-tax return of £5.4m compared to £21.3m in the Manchester and £20.2m in Bundapest.

If incentives were not available, the investment in Germany would yield a £7m loss, reduce the UK profits to £9m and barely change the £20m profit to be made in Hungary.

European companies are making calculations such as these every single day of the week. Even allowing for qualitative factors, Germany looks unattractive.

Recognising this, the German government has started to address the issue of German competitiveness, this autumn publishing a paper on securing the future of Germany's economic base. But the process of adjustment will be slow and, in the meantime, companies will chose to build their factories in Manchester or Budapest, rather than Düsseldorf. Or even go as far afield as Vance, Alabama.

FINANCIAL TIMES SURVEY

FINLAND

Monday October 11 1993

Weary after three years of deep recession and wary of what may still occur in neighbouring Russia, Finland is looking to the year ahead to establish a recovery in the economy and to plot the political path it will follow in the second half of the decade.

Thanks to a resurgence in exports, the economy is set to return to growth in 1994 after a traumatic depression. National output has shrunk by fully 10 per cent since the turn of the decade and unemployment has mounted from below 5 per cent of the workforce to 20 per cent in a country that in the 1980s had become one of Europe's most affluent societies.

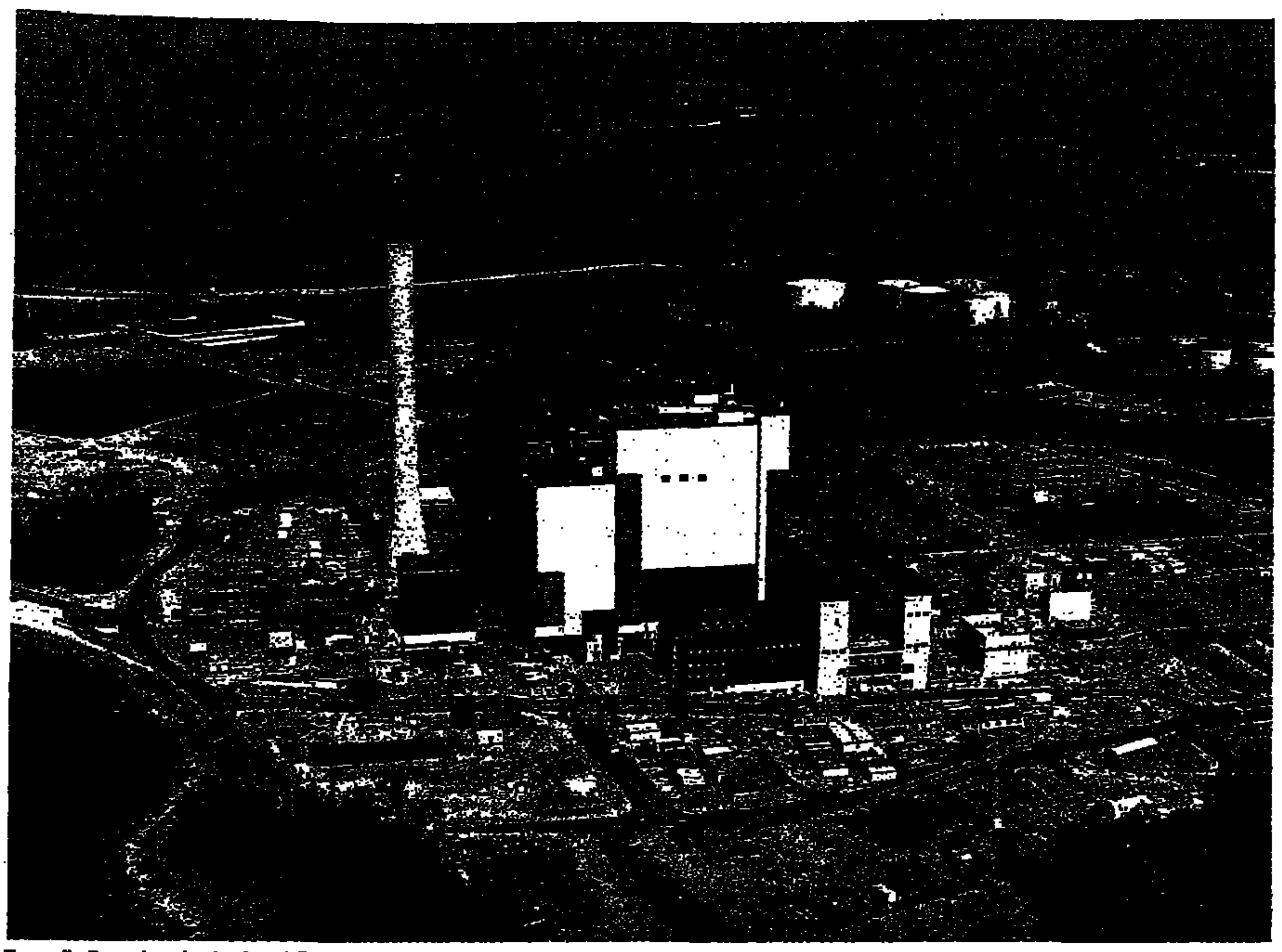
On the strategic front, Finns watched – with more anxiety than most – the events unfolding across their long border with Russia last week; they will be hoping that 1994 will see President Boris Yeltsin entrench democratic and economic stability in the neighbour that has always loomed ominously over Finland's eastern shoulder.

More than that, the governing centre-right coalition of Mr Esko Aho, the prime minister, as well as the Social Democratic opposition, intend that next year will see a successful outcome to Helsinki's negotiations for membership of the European Community, which they regard as an essential economic and political anchor for Finland in the post-cold war world.

The beginning of the year will also bring a change of national leadership. Elections in January for a successor to President Mauno Koivisto will for the first time be held by universal suffrage, adding political weight to the office of head of state. The strong favourite is Mr Martti Ahtisaari, candidate of the Social Democrats and prominent United Nations diplomat, who enthusiastically advocates Finnish membership of the EC.

But although the outlook is brighter, many obstacles remain which suggest that Finland still faces a hard slog to restore the prosperity and confidence it enjoyed in the 1980s.

Already, the government has had to revise downwards its earlier projections of 3 per cent growth next year. The weaker than expected condition of key export markets, particularly Sweden and Germany, and the persistence of low demand and high savings ratios in the domestic economy have combined to push down official growth estimates for 1994 to around 1 per cent, a level which will barely make a dent on unemployment.



Tampella Power's pulverised coal-fired boiler for the Meri-Pori power station will be Finland's largest when commissioned at the end of the year

A hard slog lies ahead

The economy should return to growth next year after a deep depression, writes Hugh Carnegy. But unemployment will stay high for the rest of the decade

Mr Aho's government is also constrained by a high budget deficit – running at around 10 per cent of gross domestic product – and a concern to rein in a foreign debt which grew rapidly over the past three years to reach 50 per cent of GDP. Progress has been made, with public spending pegged in real terms at 1991 levels and a current account surplus anticipated next year thanks to the recovery in exports.

But the high cost of unemployment payments and the heavy costs of rescuing the loss-ridden banking system from collapse have slowed the process of righting the imbalance in the public finances and squeezed out any possibility of a significant fiscal stimulus for the economy.

"We have a special interest to stimulate the domestic economy," Mr Aho said in an interview with the FT. "But the problem is that there are very tight limits for stimulation. The main way to stimulate the economy is to push interest rates downwards and keep them down."

Interest rates are at their lowest level for decades, steadily reduced since the markka was floated in September last year and quickly lost more than 25 per cent of its value. But recovery in investment has been slow to appear as companies and private individuals prefer to play down the debts they still carry from the carefree days of the 1980s.

The uncomfortable reality is that, even under the most optimistic projections, unemployment in Finland is set to remain above 10 per cent for the rest of the decade.

Mr Aho's Centre party and his conservative coalition partners see more far-reaching structural reforms as a way to engender more long-term growth. But there is still considerable resistance to the notion of wholesale changes in Finland's highly-developed welfare and social systems. Attempts, for example, to lower minimum wages for young workers have been largely blocked by the labour unions.

A key element in the government's long-term economic strategy for Finland lies in joining the EC. Helsinki has already signed up to join the European Economic Area, the open market agreement between the Community and the countries of the European Free Trade Association. But, like the governments in neighbouring Norway and Sweden, Finland wants to advance to full membership to bring the economy fully within the EC fortress, not least to ensure that Finnish investment does not migrate, and to help attract inward investment.

The desire for EC membership extends well beyond the economic argument, however. It is seen in Helsinki as an important strategic repositioning of the country after the end of the cold war.

Throughout the east-west confrontation after the second world war, Finland, which established its independence from Russian rule only in 1917, steered a course of neutrality, which was respected by the US and the Soviet Union alike. Lucrative trade agreements with the latter were the basis for much of Finland's surge to prosperity – and a primary cause of recession when the Soviet Union collapsed.

Now relationships with Russia are less certain. Initial fears of chaos across the border and, perhaps, floods of Russian refugees, have subsided, notwithstanding the dramatic events in Moscow this month. Finland has established strong political and trading ties with the newly-independent Baltic states, particularly Estonia, which lies less than 50 miles away across the Gulf of Finland. In a revitalised Baltic region, it sees St Petersburg, with its 9m population, as a lucrative potential market.

But Helsinki is nevertheless looking to membership of the EC – and participation in the Community's evolving political and security structures – as its strategic anchor in the new order and an insurance policy against future instability in Russia.

By no means all Finns are enthusiastic about joining the EC, however. Although opinion is more favourable than in Norway and Sweden, polls still show a strong hostile minority. Opposition covers issues from the fear of rural communities that they will lose generous subsidies, to fears of a loss of Finland's freedom. Opinion divides within political parties, with Mr Aho's Centre party, for example, split on the issue.

"Finns are used to the idea that freedom and independence are one and the same thing and that anything which impinges on independence impinges on their freedom," says Mr Kaakko Iloniemi, director of the Centre for Finnish Business and Policy Studies.

The government has promised a referendum on the issue which will be held sometime late next year if the target of joining in 1995 is to be met. Much will depend on achieving an accession agreement in the negotiations now under way with Brussels that the government can "sell" to the electorate as a good deal for Finland.

Hence Mr Aho has adopted a tough negotiating stance, demanding EC subsidies for Finland's farmers and calling on the Community to accept the special needs of the Nordic region. "They have to accept, in a way, new policies – a new approach – like they did when Portugal and Spain joined," says Mr Aho. "Then it was the southern approach. Now it is a question of the northern approach."

The campaign to win support for Finland's EC membership should receive a boost in January when Mr Ahtisaari is expected to win the presidency. He, more than any of his eight opponents for the post, espouses the cause and, indeed, he is a potent symbol of an active Finnish role internationally.

Finnish presidents have tended to play a less active political role than the constitutional powers of the office allow, but Mr Ahtisaari has signalled that he intends to take the lead in foreign policy that the constitution affords.

His fame is built chiefly on his role as a UN envoy – notably heading the UN's operation overseeing Namibia's transition to independence. His popularity at home has undoubtedly been enhanced by the fact that he is not associated with the disasters that have overtaken the country in the past few years. His voice could be vital in cementing opinion in favour of EC membership.

IN THIS SURVEY

Editorial production *Gabriel Bowman*

The economy is in need of structural reforms, reports **Hugh Carnegy**

Weak recovery is forecast

OVER the past three years, Finland's economy has suffered a juddering recession spectacular even by the recent grim standards of western Europe.

Real output declined by 10 per cent over 1991 and 1992 and at best will be flat in 1993. Unemployment reached 20 per cent in July. The banking sector lurched into losses so severe that the state will spend some FM60bn or more to bail it out. The budget deficit has ballooned to around 10 per cent of gross domestic product and foreign debt has doubled to almost 50 per cent of GDP.

But, at last, there are signs of a respite. "The Finnish economy is not going to continue going down the drain," asserts Mr Sixten Korkman, the chief economist at the finance ministry. "Next year there will be some recovery, even though it will be weak."

Mr Korkman is not letting optimism get the better of him. In fact, his projections of 1 per cent GDP growth in 1994 are more gloomy than last month's OECD report on the Finnish economy, which foresaw growth of 2.1 per cent next year.

But he is confident that a dramatic surge in exports already under way, following a 50 per cent fall in the value of the Finnish markka over the past two years, will drive a return to growth. The current account may move into surplus, easing the foreign debt burden and underpinning low interest rates.

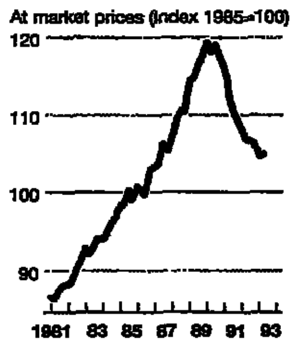
The problem is, as Mr Korkman readily acknowledges, that the domestic economy, which is the only realistic source of significant employment growth, remains stuck deep in recession.

Much of the explanation for this lies in the continued hangover from an exaggerated foreign credit boom in the late 1980s which burst when Finland's mainstay trade with the former Soviet Union disappeared and international recession hit simultaneously.

Suddenly, interest rates – which generous tax allowances had rendered negative in many cases – went up steeply, asset values tumbled and foreign debt soared in markka terms. Savings ratios rocketed and are set to stay high while thousands of individuals and companies unwind their debts.

Gross Domestic Product

At market prices (index 1985=100)



Source: Ministry of Finance

The result has been a slump in private consumption. Meanwhile, the government has embarked on a spending squeeze to try to control its rising deficits. Overall, domestic demand is set to fall by 5 per cent this year, the third year of shrinkage in succession. The OECD sees a further small decline next year.

"I am quite sure the domestic economy will remain slow even when it turns around," says Dr Sirkka Hämäläinen, governor of the Bank of Finland. "I am sure households will remain very reluctant to take on new debt."

Government policy can be summed up as a mixture of tight fiscal policy and relatively loose monetary policy. Mr Iiro Viinanen, the finance minister, has been adamant that the scale of the deficit leaves no room for expansionary measures in the budget – especially with rising unemployment and the banking crisis adding heavily to government expenditure. The government is sticking to its target of holding down public expenditure in real terms at 1991 levels.

Instead, with inflation at less than 3 per cent, the steep fall in the value of the markka and tumbling interest rates are looked to as the chief sources of economic stimulus.

But here, too, the authorities have been reluctant to go too far. The finance ministry and central bank are now ready to admit that their defence of the markka's link to the exchange rate mechanism of the European Monetary System, which they finally broke by floating the currency in September last year, was misplaced, given the depth of the recession the country was suffering.

Still, there is concern about the level of the markka which has restrained the central bank from letting short-term rates fall below the 6 per cent level at which they currently stand.

"We could not have pushed down interest rates faster," says Dr Hämäläinen. "With hindsight, you might say that if we had floated in 1991 then we could have had lower interest rates. But after we floated the currency last autumn, in practice our freedom to cut interest rates was low because of the high levels of foreign debt both in the public and private sector. In many ways we have been in a trap."

The policy approach of the authorities was largely endorsed by reports on the economy commissioned from three foreign economists earlier this year by the Bank of Finland. All stressed the importance of getting the national finances back into balance. Two – Professor David Currie of the London School of Economics and Professor Christian Bordes from the University of Bordeaux – agreed that, for the time being, controlling the deficit and lowering interest rates was the way forward.

"A tight fiscal stance coupled with a looser monetary stance offers the best prospect of economic recovery, of tackling the twin debt problem of internal and external debt, and of maintaining a competitive level of the markka, boosting exports in a difficult world trading environment," wrote Prof Currie.

The third economist – Mr Hans Tson Söderström of the Stockholm School of Economics – differed by suggesting that unemployment, set to remain above 12 per cent five years hence, was so severe that some loosening of fiscal policy was justified. He said Finland's gross public debt was not excessive by international standards and the country could contemplate a demand stimulus in the form of tax cuts.

However, the clear message from all three economists was that Finland must also undertake difficult structural reforms to underpin a return to sustained long-term growth.

Mr Söderström identified these as including: deregulation and reduced subsidies in the sheltered domestic economy; a shift in public spending from consumption and transfer payments to investment; recapitalisation of the banking system and increased labour market flexibility. "The need to combine demand and supply-side measures and short-term policy action with long-term policy commitments into one comprehensive policy programme poses a serious co-ordination and credibility problem," wrote the Swedish economist.

While there has been a high degree of co-operation between the government and the opposition Social Democrats in parliament over fiscal policy recently, there is no doubt that structural reforms raise much greater difficulties. Already the powerful trade union organisations have curbed government efforts to lower minimum wage levels. Privatisation has yet to get seriously under way.

But among policymakers there is a growing realisation that changes are necessary. Mr Viinanen, the finance minister, recently described Finland's extremely high levels of unemployment benefits as "a cancer" on the economy. Some 60,000 jobs in the public sector have been axed in recent years.

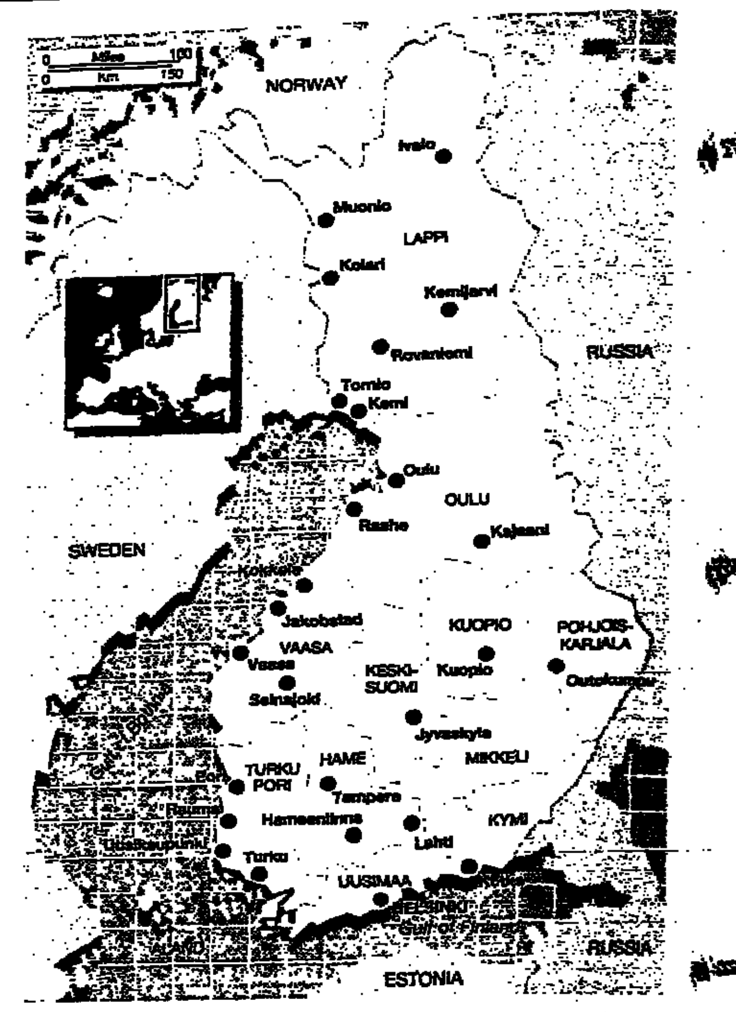
"There is still a long way to go on labour market reforms," says Mr Korkman. "But I think there have been many profound changes in the public sector. Ministries are really cutting expenditure and improving efficiency – even though the result is to increase unemployment. The mental attitude has changed."

KEY FACTS

Area	304,593 sq km	Population	5.03m
Prime minister			Esko Aho
Currency			Finnish markka
Average exchange rate	1991: $1=4.0440		1992: $1=4.4794

ECONOMY	1991	1992
Total GDP ($bn)	124.5	109.6
Real GDP growth (%)	-6.4	-0.3
Components of GDP (%)		
Private consumption	21.7	25.9
Total investment	23.9	24.9
Government consumption	21.6	18.6
Exports	55.1	55.3
Imports	-22.3	-24.7
Annual average % growth in		
Consumer prices	4.3	2.9
Wages: hourly earnings	6.1	2.6
Ind. production	-9.8	2.3
Ind. employment	-9.8	-9.9
Retail sales volume	-19.4	-19.4
Narrow money	-8.3	3.9
Broad money	6.5	0.2
Unemployment rate (%)*	10.5	15.4
Reserves minus gold ($bn)*	7.6	5.2
Discount rate (%)*	8.5	9.5
FT-A share price index (%)**	-13.7	12.8
Current account balance ($m)	-6,695	-5,104
Exports ($m)	22,516	23,554
Imports ($m)	20,195	19,703
Trade balance ($m)	2,321	3,851
Main trading partners (%)²	Exports	Imports
US	6.0	6.1
Germany	15.6	16.9
France	6.7	4.6
UK	10.7	8.6
USSR (former)	4.2	8.0
Efta	19.6	20.0
EC	53.2	47.2

* At year end. (1) Annual % increase at year end in FT-A share price index. (2) Percentage trade shares in 1991. Sources: IMF, Datastream



■ POLITICS

UN envoy may be president

DURING THE chilly depths of their long, dark winter, Finns will vote next January for a new president whom they hope will preside over the country's emergence from three years of national gloom.

All the signs are that they will choose Mr Martti Ahtisaari, who comes from outside the political mainstream and whose election would mark a break from the rather stultified ways of the past and an attempt to seek a new path after the economic and political traumas of the early 1990s.

Mr Ahtisaari is a diplomat whose most striking accomplishments have been as a United Nations envoy, notably as the head of the operation overseeing Namibia's transition to independence. Even as the campaign for the January 16 election warms up at home, he has stayed away, intending to remain in his senior role in the UN's peacemaking efforts in former Yugoslavia until December.

In other circumstances, that would seem an inauspicious background for launching into domestic politics. But such is the level of disaffection with the old guard that Mr Ahtisaari has consistently been streets ahead in the polls. His burly physical presence and bluff "folksy" approach – he is from the rural north – have enhanced his popularity. But above all, he is a fresh face.

"Ahtisaari has one big thing working for him," says Mr Jaakko Iloniemi, head of EVA – the Centre for Finnish Business and Policy Studies. "He is not a political figure. In the eyes of the nation he has no responsibility for the mess we are in."

Mr Ahtisaari's main policy platform is a clear advocacy of Finland's application to join the European Community – an issue which has split the country but so far does not seem to have damaged his popularity. He does represent a political party – the main opposition Social Democrats. But it was the potency of his non-party image that prompted the Social Democrats to choose him over Mr Kalevi Sorsa, the former prime minister, in a primary election in May.

Altogether, there are nine candidates vying for the presidency, but only two form a real threat to Mr Ahtisaari. One, Mr Raimo Ilaskivi, of the conservative National Coalition party, is a former mayor of Helsinki who defeated Mr Pertti Salolainen, his party's leader, for the candidacy and is also running on an anti-political ticket. Mr Paavo Väyrynen, until recently foreign minister, is the candidate of Mr Esko Aho's Centre party and is an experienced campaigner.

These two will put up a tough fight, attacking Mr Ahtisaari for his lack of experience in domestic affairs. But Mr Ilaskivi, at least, admits that the split in the anti-Ahtisaari vote means the only chance to defeat him is to deny him a simple majority and force a run-off vote in February. "Ahtisaari will win on January 16. The question is whether he wins outright the first time," he says.

The new president will take over at a time of flux in Finnish political life. The presidential election itself will be held for the first time by popular vote, rather than by electoral college, a reform which helped both Mr Ahtisaari and Mr Ilaskivi achieve their primary victories against opponents of their respective party establishments.

Martti Ahtisaari: a break with the past?

The direct election of the president seems bound to increase the political authority of the head of state, who already enjoys considerable constitutional powers, such as the power to dissolve parliament, appoint ministers, delay legislation and preside over foreign policy.

The three main candidates have all signalled an intention to be more active than the Social Democratic incumbent, President Mauno Koivisto, whose reticence has attracted criticism, particularly during the days of deepest economic crisis in late 1992.

However, Mr Aho's centre-right government wants to push legislation through parliament to curb some of the powers of the presidency as a balancing measure to the introduction of direct election. Mr Ahtisaari has not objected to such a move in principle, so long as the president's role in foreign policy is not diminished.

While the constitutional balance between the presidency and parliament is changing, there are also shifts going on within the parliamentary sphere. The Social Democrats, under Mr Ulf Sundqvist, have largely gone along with the tough fiscal policies of Mr Aho's coalition, recognising that public spending has to be controlled to get a grip on the budget deficit and foreign debt.

At a deeper level, parliamentary parties must also come to terms with shifting attitudes among voters. According to an EVA survey, the response to the collapse of old certainties has been to turn away from left-right issues and to focus instead on "traditional" values, with the emphasis on the family, social justice and environmental issues. "This means that there is a desire to bring sheer party politics down from its pedestal – to make it a servant of the electorate, rather than the master it has always aspired to be," EVA commented on the survey.

Hugh Carnegy

Half a million are without work, reports **Christopher Brown-Humes**

Cold comfort for the jobless

SITTING IN his fifth floor office high above Helsinki's central Esplanade, Mr Ilkka Kanerva, Finland's youthful Minister of Labour, offers no quick solutions to the country's unemployment crisis, which has left one in five workers out of a job after three years of deep recession.

Indeed, he expects the underlying trend to carry on rising for another year, in spite of the country's recent export success. He believes the rate may not start to fall noticeably for 18 months.

"If at the end of the current parliamentary period in two years' time, unemployment is down to 15 per cent, it will be a good achievement," he says.

Finland now has Europe's second highest unemployment rate, with 500,000 people out of a job, but probably nowhere has the total climbed so quickly in such a short period. Only three years ago, the country boasted one of Europe's stronger economies and unemployment was just 4 per cent.

The jobless problem has brought remarkably little social tension, and so far at least, many families have been protected from severe hardship by the country's generous welfare system which guarantees good rates of benefit during the first 500 working days that an individual is out of work.

Worldwide recession, the sharp slump in the domestic market and the collapse of trade with the former Soviet Union have all contributed to the sharp acceleration in the unemployment rate. The worst hit sector, as elsewhere in the Nordic region, has been construction, although there has been widespread rationalisation throughout the manufacturing industry. The good news is that unemployment has probably reached its peak in the metal and engineering sectors, but a far higher level of redundancies in the public sector can be expected over the next 12 months.

Unemployment is undoubtedly Finland's main economic problem, alongside its budget deficit and rising foreign debt. And therein lies the main constraint: the government simply does not have the financial resources to stimulate the economy through major infrastructure and investment programmes and it is worried that any sign of fiscal relaxation could further weaken the markka and damage its inflation and interest rate goals. Instead, it is hoping that unemployment will gradually start to come down as part of a broader export-led economic recovery, assisted by the fall in interest rates which are at their lowest level for more than a decade.

The budgetary constraints mean that the type of FM10bn stimulation package being proposed by the opposition Social Democrats has little chance of becoming reality. Big infrastructure projects are out for the same reason.

That is not to say that nothing is being done. However, the effort is reactive more than proactive and is centred on training and education programmes. Mr Kanerva says that around 250,000 people a year can be offered some form of training, but he accepts that this will have little impact on long-term unemployment, which is set to reach 200,000 people by the end of next year.

The broader government effort has been to overhaul the labour market and introduce greater flexibility into the wage bargaining process. The need for such flexibility is a theme which has been repeatedly emphasised by the OECD and it was taken up again by the organisation in its latest report on Finland, published last month. "The present centralised bargaining framework – within which the government has, in the past, tended to facilitate wage negotiations by offering expensive fiscal concessions – now appears incompatible with the general thrust of government policy based on budget consolidation," the OECD stated.

But government efforts to overhaul labour market structures have yet to show much success. In the spring, it encountered fierce union opposition, including the threat of a general strike, when it tried to introduce a package of reforms, including a scheme allowing employers to take on jobless youths for 30 per cent less than the minimum wage. The measure was eventually implemented, after agreement with the unions, but in a way which has meant it has had little practical impact.

Mr Kanerva concedes that the government's approach might have been heavy-handed, but he insists that the fight for reform will continue. "The tactic now will be step by step, rather than grand slam," he states.

One scheme he wishes to implement would compel employees to operate a more flexible working schedule, although it would not increase the total number of hours they worked annually.

SAK, the blue collar union, says it is prepared to compromise, but only as part of a broader package which tackles unemployment. It believes the government could afford to expand public spending in the short term if agreement on medium-term cuts in public spending could be reached as part of a social pact. It has already identified a number of infrastructure investments which it says could be funded in this way.

The union says it is ready to discuss wage rises in the context of job security, investment and training, implicitly linking the question of wage restraint to job creation.

The main frustration for the union is apparent government unwillingness to open a dialogue. Mr Kanerva admits that relations are strained, but says this is because the unions have traditionally been aligned with the opposition Social Democrats, rather than with the centre-right parties which are currently in power.

INTERVIEW WITH THE PRIME MINISTER

Chance of growth again

MR ESKO AHO, at 39 one of Europe's youngest leaders, has had to steer Finland through a traumatic recession since becoming prime minister in 1991. Active in the rurally-based Centre party since the 1970s, Mr Aho entered parliament in 1983 and became party leader in 1990. He has been criticised for not being tough enough and his future inevitably rests on the fortunes of the economy. He discusses its prospects with Hugh Carnegy

Esko Aho: expects balance of payments surplus next year — Ashley Ashwood

WHAT light do you see in the tunnel now for the economy?

We have made major structural changes. Throughout the 1980s our exports and industrial output went down, relative to gross domestic product. Finland was only able to preserve its high standard of living by borrowing money from abroad. When my government took over we had to do something about this structural problem. Since then, the share of exports relative to GDP – it was close to 20 per cent in 1991 – has risen to about 33 per cent this year and next year it could be as high as 38 per cent.

Also, as far as industrial production is concerned, we have had major changes. That is the reason why I think we have a good chance to return to growth again. Our net foreign debt stands at the equivalent of more than 50 per cent of GDP, but because of that export growth it is going to start to go downwards and next year we expect the balance of payments is going to be in surplus. These are preconditions for solving our other problems.

These changes have made possible the recent fall in interest rates, which are now low enough for new investments. This creates possibilities for solving domestic problems and getting some effect also on high unemployment, which is our major political problem.

How soon do you anticipate that there will be this pick-up in the domestic economy and what more can you do to encourage it?

We have a special interest to stimulate the domestic economy. But the problem is that there are very tight limits for stimulation. We cannot use higher public indebtedness because it will lead to an even worse situation. That is why the main way to stimulate the economy is to push interest rates downwards and to keep them down. I believe that we have the possibility to succeed in that. It depends on domestic decisions – on budget policy, fiscal policy and labour market agreements. Another factor having an impact on that is the European trend and we expect that in the longer term European interest rates are going down.

Is there not more you could do, for example some lowering of Finland's very high tax regime?

As far as taxes are concerned, the problem is that the deficit in governmental expenditures is very high and we cannot cope with a higher deficit. If we are able to get (wage agreements) which are reasonable in this situation, it would create some possibility to use taxation to stimulate demand, but this margin is not very large. We have also some opportunities to concentrate resources in our budget on new investments.

When do you expect unemployment, now around 20 per cent, to peak?

It is very difficult to make forecasts because we have not seen this kind of situation before. Simultaneously we have structural problems, with branches like the banking and public sectors having to lay people off, and this depression. But I have the feeling that later this year or at least next year, unemployment will be lower.

One of the problems you have run into has been resistance to labour market reforms, such as lowering minimum wage levels for young employees. How difficult is this issue?

I have to say that in Finland labour market organisations are very well developed with the kind of agreements which make our labour market very rigid. Our intention has been to lower the threshold for the employment of new people, but we have noticed that labour market organisations, especially the labour unions, have been very much against these kind of changes because they fear they will give companies too much power against unions. I think that is a big mistake because the only way to have a positive effect on unemployment is to make these structures more flexible.

We made some agreements last May which made it possible to have some more flexibility in employing young people, but they were not major structural changes. We have not succeeded in that.

Would you also like to go further in reducing Finland's extensive and expensive welfare system?

We have undertaken several big savings programmes to reach the goal of zero real growth in public expenditure from 1991 to 1995. At the present time we are achieving this target. The problem is that we have some extra costs, especially in the banking sector. We have not been able to cover these costs by savings because, if we had tried that, the downward curve in the economy would have intensified. But the cuts we have made have been very painful, politically.

People often remark that Finns have been very tolerant of the recession. There has not been any significant social unrest, despite 20 per cent unemployment. Do you sense that this public understanding of the crisis persists?

I have to say that despite many difficulties in realising our programmes – from the political opposition and labour market organisations – today the public discussion is much more reasonable than it has been. The atmosphere in the country is calm – I think most people understand what the situation requires better than was the case in 1991.

In 1991 Finland and our population did not know where we were and where we were trying to go. Today I feel that the main goals of economic policy have been accepted more generally than before.

Heikki Haavisto: from farming to the foreign ministry

FOREIGN POLICY

The European anchor may give security

"IF WE are not in Europe, we are in Russia" is how one Helsinki taxi driver justifies his support for Finnish membership of the European Community.

The view may be a little extreme, but it helps to explain why Finns have proved to be more enthusiastic about joining the EC than either of their Nordic neighbours, Norway and Sweden.

Western Europe is seen as an anchor for Finland at a time when the certainties of the cold war have been lost and traditional concepts of neutrality no longer carry their former weight. The feeling has been heightened by the upheaval which continues to afflict the country's giant eastern neighbour, Russia.

In other words, security questions as well as economic issues are weighing on the minds of the Finns when they consider the EC. By contrast with Sweden and Norway, opinion polls have consistently shown a majority of the population to be in favour of EC membership, although sometimes the margin has been very narrow. An August poll, conducted by the Taloustutkimus organisation, indicated 49 per cent were pro-EC, compared with 35 per cent against.

Negotiations on membership began in February, but the toughest phase of the talks will come this autumn when the most difficult questions are discussed. It is already clear that agricultural and regional matters will be the biggest stumbling blocks, although there is also concern about moves within the EC to limit the influence of smaller EC member states in decision-making.

It may seem surprising that agriculture has become so sensitive an issue, as farming employs only 8 per cent of the Finnish population and contributes only 4-5 per cent to GDP.

But farming's importance is psychological as well as economic in a land where the countryside is regarded as an essential part of the national identity and cultural heritage. As recently as 1960, 36 per cent of the workforce was employed on farms.

The issue also has particular importance for Finland's Centre party, the dominant coalition partner, as it traditionally draws its support from rural areas. Opinion polls have shown that Finnish farmers are more implacably opposed to EC membership than any other section of society. The Centre itself is split, with its leaders in favour of the EC and the rank and file against it.

The need to win over the party membership may explain why Mr Heikki Haavisto, president of the influential Central Union of Agricultural Producers and a renowned EC sceptic, was appointed as foreign minister in May when Mr Paavo Väyrynen stepped down from the position to promote his candidacy for the presidency. If nothing else, the appointment sent a clear signal to Brussels about the importance Finland attaches to the agricultural issue.

> If Finland can get an agreement on agriculture, it looks very much as if all other aspects of its membership application will fall into place

In essence, Finland wants hefty EC subsidies – worth about FM3.5bn a year – in recognition of the special geographical and climatic conditions facing its farmers in such a northerly location. "Our natural circumstances are very different to those of any country already in the EC," states Mr Haavisto.

In particular, he draws attention to Finland's short growing season – even in southern Finland it is only 170 days compared with 230 in northern Germany – as well as to the small average size of the country's farms and the distances to market, which are often huge.

But he also makes it clear that agriculture has related regional and security aspects. The fear is that if farmers are put out of business, whole areas of the country will become depopulated, a particularly sensitive topic in the context of Finland's 1,300km long border with Russia.

If Finland can get an agreement on agriculture, it looks very much as if all other aspects of its membership application will fall into place. The country has accepted the Maastricht treaty, and it has not made an issue out of neutrality. For the moment, it wants to remain militarily non-aligned, with an independent defence, but it has not ruled any options, including membership of the Western European Union, in the future.

The country is also displaying a more relaxed attitude than either Norway or Sweden on some other controversial questions, such as alcohol policy.

Mr Haavisto's appointment as foreign minister was certainly not universally welcomed, as he was thought to be too closely tied to the farming lobby. However, his critics say that on the evidence of his first five months in office he genuinely wants to achieve a negotiating result which will enable Finland to join.

It is hard to predict what will happen if Mr Haavisto eventually decides he cannot recommend the membership package which Finland is offered. The likely answer is that it will provoke a government crisis, forcing the Centre party out of the coalition.

In any case, it is difficult to see agriculture being the decisive issue. Dr Max Jacobson, a former diplomat, says it is "inconceivable" that Finland will reject membership just because the farmers oppose it. "A majority will still be in favour of joining," he claims. A bigger danger could be developments in the Community itself if these create a negative impression in the minds of the Finnish electorate.

The timetable is certainly tight. If Finland is to join the Community on schedule on January 1 1995, negotiations must be completed by next April. A non-binding referendum will then be held around next September.

That is likely to make Finland the first of the three Nordic states to vote on the issue, so a Yes vote will be important not simply for Finland but for pro-EC campaigners in both Sweden and Norway, who believe it will provide a wider momentum for their own EC membership ambitions.

Christopher Brown-Humes

■ FORESTRY

Pulp, paper industry turns corner

AFTER TWO years of heavy losses, Finnish pulp and paper companies have turned the corner. Some groups will remain in the red in 1993, but enough of them will be profitable to give the industry as a whole a break-even result. This represents a considerable improvement on last year's combined loss of FM4.2bn, and 1991's FM5.2bn deficit.

Whatever help the industry has had, it has not come from the market. Hopes that prices would turn decisively this year have been badly disappointed, and expectations for next year are already being toned down, particularly as far as the key west European market is concerned.

Instead, the Finns have had to rely on their own efforts and a hefty 30 per cent devaluation of the markka to ride out the storm. All the major companies have rationalised heavily, cutting staff numbers by up to 30 per cent, and they have conceded little in the way of wage rises in the last two years. Added to this has been a 32 per cent fall in wood prices since 1991, which has lowered the raw material costs of the pulp mills significantly.

The depreciation of the markka has also helped, but it has not proved as big a benefit as originally hoped. Buyers have also wanted their cut from devaluation's benefits, forcing prices down still further. For some products, such as sawn goods and fine papers, markka prices today are virtually the same as they were a year ago.

The collapse in the market, particularly for pulp and fine papers, is the principal reason why the Finnish forestry industry will manage only to break even rather than make a profit this year.

The other factor is the high debt load which the major Finnish groups continue to carry following their hefty investment programmes in the late 1980s and early 1990s. Combined debts at FM70bn are as big as turnover, and since more than 60 per cent of them are denominated in foreign currencies, they have risen sharply because of the weaker markka. In 1991 and 1992 around half of the industry's losses were attributable to currency losses.

On the short-term perspective, Finnish groups clearly over-invested on the back of the boom market conditions of the late 1980s, even though they now have the world's most modern and efficient pulp and paper machinery to show for it.

The emphasis was different in Sweden where the big forestry groups concentrated their expansion more on company and plant acquisitions in Europe. Some argue that the Swedish tactic was better, because it facilitated the removal of extra capacity in the market downturn, though it has also left the Swedes with greater production capacity in hard currency countries.

The debt burden has forced the Finnish forestry industry to consolidate. Total investment will fall to an annual FM4.5bn this year and next, compared with FM8bn a year in 1989 and 1990. There are currently only two major projects on the blocks: a DM500m scheme to build a newsprint plant, based on recycled paper, in eastern Germany and a FM3bn plan to construct a new pulp mill at Rauma in western Finland. Other projects may only see the light of day as part of a risk-sharing collaboration between different groups.

The depreciation of the markka has not proved such a big benefit

Balance sheet constraints are also likely to limit takeover activity, unless industrial logic – or distress – can be cited to justify it. For one thing, there has already been a considerable shake-out in the Finnish forestry sector, and for another, the 1980s argument that it made sense to buy in Europe cannot be sustained today when Finland has become a low cost producer again.

"Priority number one over the next two years will be repaying debts," says Mr Jarl Köhler, managing director of the Finnish Forest Industries Federation. Enhanced cash-flow, disposals and share offers will all feature in the drive for a stronger balance sheet.

Mr Köhler acknowledges that 1994 will be another tough year for the Finnish forest companies, but he nevertheless expects an overall profit for the industry, thanks to the trends which have begun to emerge.

Firstly, the industry has been able to raise its capacity utilisation from 83 per cent in 1992 to 87 per cent this year. For sawn wood the jump has been from 81 to 92 per cent, and for newsprint from 82 to 91 per cent. But some sectors are still very depressed – utilisation for uncoated (SC) paper has fallen to 77 per cent this year from 83 per cent, while pulp utilisation rates have climbed only to 85 per cent from 83 per cent.

Secondly, in spite of the recession, worldwide paper consumption is continuing to grow, albeit at a modest 1-2 per cent a year.

Thirdly, exports have been growing strongly: they are predicted to rise by 10 per cent in volume terms and 14 per cent in value terms during 1993. The gains have come despite the fact that western Europe, which last year accounted for 80 per cent of Finnish forest industry exports, has been in recession. Increased sales to North America, Asia, the former eastern bloc and Latin America account for all but a tenth of the increased export volume.

Should Finland try to reduce its dependence on the industry?

If the short-term outlook is relatively positive, questions remain about how well placed Finnish forest companies are to meet long-term competitive challenges. The threats come not just from trends like recycling and greater computerisation, but from expanded production in current export markets – such as Indonesia – and from the ability of rivals with stronger balance sheets to exploit market opportunities.

The Finns do not appear to be unduly alarmed by their position. They point out that with their emphasis on higher value-added products and their modern machinery, they are as well placed as any of their competitors to take advantage of an upturn in market conditions.

The broader question is whether Finland should be trying to reduce its dependence on an industry which accounts for as much as 50 per cent of its net exports and which is highly capital intensive. The answer is almost certainly yes.

Mr Henrik Ehrnrooth, chief executive of Jaakko Pöyry, the international consultancy group, says the country is "definitely" over-dependent on forestry. "But it's hard to change," he notes, "when forestry tends to attract the country's best brains."

Christopher Brown-Humes

The Enso-Gutzeit mill at Kotka, in southern Finland

How the forestry machinery companies have been coping

Orders shift towards Asian market

THE COLLAPSE in pulp and paper prices is being felt beyond the Finnish forestry groups which it directly affects: the supporting industry, from forest machinery groups to power plant companies to chemicals suppliers, has also suffered from the downturn.

Finland's forest machinery companies have seen orders fall sharply from the levels of three or four years ago, because pulp and paper companies worldwide have slashed investment in the face of huge losses and overcapacity in many market sectors. The position may not change much in the next year or two, with few expectations of a significant improvement before 1995.

"There is overcapacity. We as machine suppliers have been too successful"

There is also something of a hangover effect. Huge investments in the late 1980s and early 1990s were based on the assumption that pulp and paper demand would go on rising. That simply did not happen. However, it has meant that the companies which invested heavily then, including the big Finnish groups, now boast modern equipment which they will not need to replace for many years.

"There is overcapacity. We as machine suppliers have been too successful," says Mr Krister Ahlström, president of the Ahlström group, a leading supplier of pulping equipment.

Factors which have helped Finland's machinery manufacturers survive the crisis have been strong market positions, technical innovation, rationalisation and the development of new markets and services. Such moves have enabled Valmet, one of the world's three largest producers of paper machinery with a 30 per cent market share, to keep its paper machinery operations profitable in 1991 and 1992, while the group as a whole has suffered heavy losses.

A noticeable trend has been the enforced shift away from the European market, which has traditionally been the mainstay of companies' order books, towards markets in other parts of the world. Significantly, Asia now makes up the largest segment in the orders of Kone Wood, which supplies wood handling equipment to pulp mills, after the company's success in winning two orders in Indonesia and one in Iran. At Valmet, Asia accounted for 9.2 per cent of sales last year, but 18.6 per cent of orders.

Valmet is also giving greater emphasis to rebuilding and servicing existing machinery to compensate for reduced orders for new equipment. Mr Matti Sundberg, its chief executive, says: "Rebuilds are becoming more important, particularly for smaller companies which cannot afford to buy new machinery."

Niche positions have also helped. Kemira, the state-owned chemicals group, has been able to increase sales of hydrogen peroxide, a chemical used in pulp bleaching, thanks to greater environmental concern among forestry groups. The company estimates hydrogen peroxide sales will grow 10 per cent in Europe and 35 per cent in the Nordic region during 1993.

Ahlström has also benefited from the environmental trend, which has pushed up sales of chlorine-free pulp bleaching technology. "Most new orders are environmentally driven. Modernisations and upgrades to solve environmental problems or eliminate production bottlenecks have become the guiding factors for investments," it noted in its 1992 annual report.

The upturn will come "when pulp prices rise at least $100 a tonne"

For many of Finland's machinery groups, it is a question of sitting out the downturn until market conditions improve in the second half of the decade, when they are hoping there will be a significant increase in orders for new machinery and rebuilds. That is why they are so reluctant to reduce spending on research and development, despite the current financial squeeze.

However, it is still far from clear when the upturn will come. Mr Ahlström says pulp prices need to rise "at least $100 a tonne before customers start loosening their purse strings" (the current level is $400 a tonne) and orders for pulping equipment are back to more normal levels.

Mr Sundberg is also cautious but he notes that worldwide demand for paper has continued to rise in spite of the recession. "Within two years there is likely to be a relatively good balance in most paper grades. Companies will have to start talking to machine suppliers quite soon if they want to be well ahead in the second half of the 1990s," he states.

Christopher Brown-Humes

■ THE ENVIRONMENT

On the defensive

IT IS as much out of self-interest as concern for the country's natural habitat that Finland's forestry industry has got serious over environmental issues.

As the world's second biggest exporters of forestry goods, the country's pulp and paper producers have had to respond to customer pressures to clean up their act or risk losing key markets. The green lobby, particularly in central Europe, has been vociferous in *calling for tighter* environmental standards, and the success of their campaign is openly acknowledged by Finland's senior forestry executives.

"If we rape our forests, pollute our rivers, and dirty our land, customers will say they don't want anything to do with us," says Mr Jarl Köhler, managing director of the Finnish Forest Industries Federation. A boycott could have a devastating effect on an industry that is already under *pressure from* adverse market conditions and the trend towards recycling.


Jari Köhler: his federation has a policy of "sustainability"

The Finnish forest industry feels it has been unfairly forced onto the defensive on environmental questions because it is sometimes tarnished with the same brush as countries in tropical climates, which have gained a reputation for reckless destruction of their woodlands. It believes its record on tree-cutting, recycling, and *emissions* compares favourably with those of its main competitors, Sweden, the US and Canada.

Finland has more wood today than ever before, thanks to a policy of "sustainability". Planting three or four new seedlings for every tree harvested means the country is growing 80m cubic metres of forestry a year; but only consuming 50m cu m of them.

At the same time there have been *significant changes to* methods of cultivation and harvesting, designed to increase bio-diversity and minimise damage to the landscape. Large areas of forest are now less likely to be cleared at one go; instead, they will be gradually thinned. Harvesting techniques have also changed, with an emphasis on lighter machinery.

"Two-thirds of our forests are in the hands of private owners. It doesn't make sense for them to harm their livelihood," says Mr Pertti Laine, director of the the federation's industrial and environmental unit.

It is sometimes suggested that the recycling movement poses a serious threat to the future of the Finnish forest industry. The threat is overstated, firstly because recycled fibre can only be used for cer*tain types of paper grade, such* as newsprint, packaging and tissues, and secondly because there is a limit to the number of times paper can be recycled. With paper consumption continuing to grow, despite worldwide recession, recycling has not has yet had a significant impact on the production of virgin fibre.

The Finns see recycling in the wider context of the recycling of carbon. Because trees *absorb carbon dioxide, and* therefore slow the greenhouse effect, wood is regarded as a perfectly natural recyclable raw material, providing new growth is systematically assured. That is why the Finns get hot under the collar about developments in some European countries, which legally require a certain percentage of magazine paper and newsprint to be produced from recycled sources.

This could *force* Finland to import recycled paper, as its own paper consumption is too small for it to be able to base its production on domestically *recycled* material. *Alternatively*, and perhaps more likely, Finnish companies will continue to set up recycling plants close to big population centres in Europe. It is significant that the biggest Finnish forestry investment project announced this year is Enso-Gutzeit's scheme to build a DM800m newsprint plant, based on recycled paper, in the eastern German state of Saxony.

Despite the *market situation* and the heavy losses they have experienced over the past two years, Finnish forestry groups have continued to make signifi*cant investments in* environmental projects. Last year, environment-related investments totalled FM740m, or 12 per cent of total forest industry *investments*, compared with FM815m in 1991 and FM775m in 1990. Some 65 per cent of the money was spent on measures to combat water pollution, 33 per cent on air pollution control, and 2 per cent on solid waste management.

Added to the investments they have already made over the last 10 years, the Finns can now point to a dramatic lowering of emissions of the major chemical pollutants. Emissions *of sulphur dioxide last* year were 18,900 tonnes, down 80 per cent since 1980, while emissions of organic chlorine compounds were down 60 per cent on their *1989 level at 4,900* tonnes.

At the same time, consumption of chemicals like chlorine has fallen sharply, thanks to the introduction of new bleaching processes. This development has come largely in response to consumer pres*sure for* "totally chlorine-free" pulp and paper.

The process of environmental improvement still has further to go. The next stage will come with the new generation of pulp mills, which will have almost totally enclosed water systems and minimal effluent when they *start* production in the second half of the decade.

Christopher Brown-Humes


Outokumpu, the mining and metals group, has seen a sharp recovery this year, partly because of the depreciation in the markka

Christopher Brown-Humes on prospects for the country's leading forestry companies

Big four forge path to profits

FINLAND'S four big listed forestry groups have forged a path back to profitability despite high debt loads and the ravages of a severely depressed market. The turnround in their fortunes has driven Finnish forestry share prices sharply higher over the past 12 months. United Paper Mills (part of Repola), Enso-Gutzeit and Metsä-Serla expect to make a profit in 1993, after bouncing *back into the black at the four-month* stage. Kymmene will make a loss although it will be far lower than the FM1.36bn deficit sustained last year.

Relative positions are outlined in more *detail below:*

■ Market position: With so many factors in common, the performance of the four groups is being differentiated both by the extent of their exposure to the most depressed segments of the market and by the scope of their activities in France, Germany and other hard currency countries. Kymmene loses out on both scores: it is Europe's leading producer of fine paper, where overcapacity is particularly serious, and 50 per cent of its paper is produced abroad, mainly in hard currency countries.

UPM has 30 per cent of its production abroad, with about half its newsprint capacity based in French and UK mills. Metsä-Serla and Enso-Gutzeit are less internationally-orientated: Enso has a fine paper mill in the Netherlands and a board mill in France, but these account for less than 10 per cent of production.

More stable market segments have afforded some protection. Tissues have helped Metsä-Serla – it has 45 per cent of the Nordic market – and it has a strong position in corrugated board in Finland, Denmark and Greece. UPM has benefited from its paper converting, speciality papers and board activities while Kymmene has been helped by its plywood operations.

■ Results: Nearly all divisions will be *profitable in 1993. Kymmene, Metsä-*Serla and Enso-Gutzeit will all see a loss from their fine paper divisions. Enso and UPM say that their pulp divisions will also record a deficit.

■ *Investments: Enso-Gutzeit* has invested more actively than its rivals in the past 12 months. It bought 100,000 hectares of forest from Ahlström for FM926m; acquired Tampella Forest and Tambox Europe for FM3.6bn (including debt); and said it will build a DM800m newsprint plant, based on recycled paper, in eastern Germany. These moves will lift turnover from FM10.3bn in 1992 to an estimated FM17bn in 1995. Net debt will rise to FM13bn.

A project to build a FM3bn pulp mill at Rauma in eastern Finland has been *drawn up by Metsä-Botnia, a joint ven*ture between Metsä-Serla, UPM, and Metsaliitto, but financing has still to be finalised. Annual production will be 500,000 tonnes a year, but it is unlikely to be in operation before 1996-97.

■ Debt reduction: The four companies are highly geared and all have given debt reduction a strategic priority. Lower interest rates, positive cash-flow, reduced investment programmes, and, possibly, new share issues will all help achieve this aim.

Exploiting strong international investment interest in Finnish forestry, both Metsä-Serla and Repola have launched successful share issues this year. Metsä-Serla raised FM543m ($100m) through an offer of 3.25m new shares while Repola raised FM445m by offering 8m shares held by subsidiaries.

Mr Harry Piehl, Kymmene chief executive, speaks for many companies when he says: "We can keep our investments low without sacrificing our future," reflecting the huge modernisation programmes which Finnish forestry groups carried out in the late 1980s.

■ Ownership: The ownership bases of the four companies are distinct and relatively stable. A spree of foreign buying in the last 12 months, following the devaluation of the markka and the removal of foreign ownership restrictions at the start of this year, has increased foreign share ownership.

One big chunk which could find its way to the market at some stage is *Metsä-Serla's 21 per cent stake in* Repola, the hangover of an abortive bid in 1990. It has a current market value of around FM2.8bn, compared with a book value of FM2.1bn. Mr Timo Poranen, Metsä-Serla chief executive, says the stake is not "essential for our co-operation" with UPM (in wood procurement and marketing) but says Repola is seen as a good investment.

The Finnish government is also looking at ways to reduce its stake in Enso-Gutzeit, which, directly and indirectly, amounts to 58 per cent of the shares and 78 per cent of the votes. Jaakko Pöyry, the international consultany group, and Goldman Sachs have been retained to advise on how the sell-off can be accomplished and over what period. *The most likely development* is a step-by-step reduction of the state's holding over the next few years.

■ Market outlook: High export rates make Finnish forestry groups highly dependent on developments in countries where they sell. With the main European market expected to remain weak again next year, executives are cautious about predicting anything more than a modest upturn.

"Demand is growing slowly for all paper grades in central Europe because of very slow GNP growth," says Mr *Juhani Pohjolainen, executive vice-president* of Enso-Gutzeit. However, the picture is brighter in south-east Asia, and in the US and Latin America.

Most executives feel prices for fine papers and pulp are unlikely to fall further, but they warn that overcapacity will only fall away slowly.

"Low pulp prices are a *disaster*," says Mr Poranen of Metsä-Serla. "Weak pulp prices are behind weak paper prices. It is in everybody's interest that we have higher pulp prices."

IN HIS splendidly august office, complete with grand landscape oil paintings and a loudly ticking grandfather clock, Mr Pertti Voutilainen reflects, in measured terms, on the prospects for recovery at Kansallis-Osake-Pankki. He took over last year as its chief executive in the midst of an unprecedented crisis.

Hugh Carnegy finds caution as well as optimism at the banks

The horse has bolted

Banking groups' total exposure*

Sector	Total exposures FM bn	%	Non-performing assets FM bn	%	Write-offs on loans and guarantees FM bn	%
Corporate, of which	268	45.1	32	58.9	17	71.8
Manufacturing	89	14.9	4	7.5	2	8.8
Construction	29	5.0	6	10.1	3	11.8
Trade, restaurants, hotels	58	9.7	7	13.4	3	14.2
Real estate business	34	5.7	9	16.4	5	20.5
Other	58	9.8	6	11.5	4	16.5
Household	192	32.3	12	21.1	1	6.6
Other domestic[1]	57	9.5	3	6.1	2	10.6
Foreign	78	13.1	8	13.9	2	11.0
All sectors	595	100	55	100	22	100

[1] Includes financial institutions, general government and non-profit institutions. Source: Bank of Finland

"In February we promised to halve our 1992 losses of FM3.7bn this year. We anticipate break-even will come at the end of 1994 and that 1995 will be profitable for us," he says. "If we look at developments so far this year, we are a little bit ahead of that trend. But there are risks still awaiting us and I don't think I can promise a significantly better development than we estimated previously."

Mr Voutilainen's sober assessment of the outlook at Finland's leading bank catches the mood in the sector as a whole a year after the immense depth of the losses sustained by the country's financial institutions became clear. In step with the economy as a whole, there are signs of recovery, thanks largely to the steep fall in interest rates this year. But the backlog of credit losses is so large that a return to profit is likely to take another two years.

"Our non-performing loans have stabilised now and our credit losses are going down," says Mr Vesa Vainio, chief executive of Unitas, KOP's main rival, which ran up a loss in 1992 of FM2.7bn. "We see a turnaround in our bank, in spite of a further big loss this year and next year as well. Banking operations as such are profitable."

So great was the disaster that overtook Finland's banks – like those of Sweden and Norway – that the state was forced to step in with guarantees and infusions of capital to keep the system afloat. "If we had not, we would have had no banking system left," says Mr Jorma Aranko, head of the Bank Supervisory Authority. "It would have been a total shambles."

The crisis erupted when a severe recession, induced in large part by the loss of Finland's trade with the Soviet Union, pricked a grossly inflated lending bubble – much of it in foreign currency – that had followed liberalisation of foreign exchange and other financial regulation in the mid-1980s. Rising interest rates and sliding asset values then wreaked havoc on the banks.

None escaped without resort to some government assistance. The two main players in the savings bank sector, Skopbank and the Savings Bank of Finland, had to be taken over by the state, which set up the Government Guarantee Fund to administer the crisis. The government has budgeted some FM60bn in rescue capital for the fund, much of which has already been spent.

A recent Bank of Finland paper showed the banks as a whole had non-performing assets of FM55bn at the end of 1992 – nearly 10 per cent of their loans and guarantees – after write-offs of FM22bn. Nearly 60 per cent of these bad assets were attributed to corporate lending, with the bulk spread through real estate, trading companies, tourism and construction. Just over 21 per cent of bad loans were to the household sector.

A year later, the picture undoubtedly looks rosier. KOP cut its losses in the first seven months to FM768m, from FM2.3bn in the same period of 1992. Unitas losses in the first eight months fell to FM1.01bn from FM1.31bn the year before. Operating profits before credit losses rose fivefold to FM881m.

Both banks believe they will now survive the crisis without resort to state aid beyond the preference capital each has received. The government has pledged to guarantee bond issues by the banks. But for now at least, the big two have successfully turned independently to the markets to recapitalise and ensure they remain above the 8 per cent minimum international capital adequacy ratio. KOP has raised more than FM2bn this year in share and bond issues and plans to raise similarly a further FM2bn. Unitas is meanwhile raising more than FM1.5bn.

If the economy stays on track for a slow recovery next year and interest rates remain at the present low levels, the banks should return to profitability in 1995. The government is also hoping that the recapitalisation process – both through state and private funds – will avert a "credit crunch" that could choke off the much-yearned for upturn in economic activity.

But several unresolved issues hang over the banking sector. Chief among these are the savings banks. The government has kept them afloat, but at great expense, prompting protests of unfair competition from rival commercial banks and calls for them to be sold off or closed down from some senior politicians.

KOP and Unitas are both interested in acquiring at least some of these banks and have had talks to that end with the authorities. But that has prompted concern about their achieving too great a market share. The issue overlaps with the question of reducing the generally acknowledged overcapacity in Finnish banking. STS, the sixth largest bank, was taken over by KOP this year. But the authorities appear undecided over how to proceed with the savings banks, the obvious candidates in any further restructuring.

Last, but not least, is the question of whether the system as a whole has learned the lessons of the past two years. All the banks have tightened the way they handle credit control. Unitas, for example, has a board member whose sole task is risk control and a team of 15 credit specialists. The bank now takes account of cash flow as well as collateral when assessing loan requests.

The state, meanwhile, has moved to extend the powers and resources of the Bank Supervisory Authority. It has been brought within the Bank of Finland for the first time and is acquiring the power to monitor all divisions of a banking group, not just the core bank as previously.

"It is far too late, in a way, as the horse has already bolted," says Mr Aranko. "But we have got together with the Bank of Finland to be ready for the next bank crisis."

INDUSTRY

Daunting task that faces exporters

THE RECESSION that has jolted Finland over the past three years has, among its other effects, exposed the extent to which the country is now dependent on its export industries for a return to growth.

"Increasing merchandise exports and the continuation of structural changes in export production hold the key to the preservation of economic well-being," concluded a recent paper on industrial strategy produced by the Ministry of Trade and Industry.

An encouraging start has been made, with exports rising at an annual rate of some 13 per cent this year, thanks in large measure to the sharp decline in the value of the Finnish markka. The current account deficit has been slashed and should move to a small surplus next year.

Finland's traditional mainstay – the forestry industry – has contributed to the export revival, despite the continued weak state of the world market for its products.

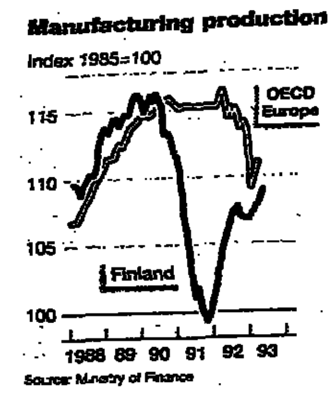
The metal and engineering industries, which now make up the biggest part of manufacturing output, have also pushed up exports, with such companies as Nokia, the world's second largest mobile telephone maker, and Metra, a world leader in diesel engines, improving profits significantly this year.

But the task is a daunting one. "In order for Finland to start reducing its foreign indebtedness, the balance of trade must for several years run a surplus of FM30-40bn – about 30 per cent relative to export revenues. Only Japan and Germany have been able to sustain such sizeable surpluses," commented the ministry in its strategy paper. "In terms of export growth, this means an average rise in exports of 6-8 per cent per annum all through the 1990s."

Achieving such a target will require a marked expansion of manufacturing output – which fell as a proportion of GDP in the late 1980s from more than 25 per cent to less than 15 per cent – as well as greater diversification and greater adaptation to new technologies. But it will also require structural changes in areas such as labour market rigidities, privatisation and protection of local industries to maintain the competitive momentum already given by the devaluation of the markka.

The government believes it has an important role to play in this process, but not through active promotion of new industries or direct channelling of resources to favoured sectors.

Manufacturing production



Source: Ministry of Finance

"There is a need for an industrial policy in Finland, but not in the way of the old days," says Mr Matti Vuoria, the trade and industry ministry's top official. "We don't want to enter a debate on which industrial branches Finland should be in – the market will make those decisions."

Instead, Mr Vuoria says, the intention is to concentrate on development of infrastructure – particularly transport links in a country distant from most of its export markets – technology and education and the removal of protection which in the 1980s sucked too much investment into the "sheltered sector". Finland, he says, has no inherent competitive industrial advantages and must therefore create them through, for example, the fostering of a highly educated workforce.

Big changes have already been made in the area of foreign investment – an area in which Finland has historically ranked among the weakest of western countries. Legislation allowing foreign ownership of Finnish companies came into force this year, prompting a wave of foreign sharebuying.

The dearth of local operations by foreign companies is still a feature of the Finnish economy. But this may also change. Norway's Kvaerner Group now runs the Masa shipbuilding yard, which this year won the country's biggest ever export order – a contract to build four liquid natural gas carriers for Abu Dhabi.

Government action on the privatisation of the 20 per cent of industrial output that is in state hands has been slower. The state's holding in Tampella, a big metals group, has been reduced from 90 to 50 per cent. Other majority or wholly state-owned major companies slated for action include Neste, the oil and petrochemicals group, Kemira, a chemicals producer, Outokumpu, the mining and metals concern, and Valmet, the paper machinery and engineering company. But little has been done beyond the commissioning of privatisation studies.

In the meantime, the main feature of development among private sector companies outside the forestry sector has been a trend to shift from diversified conglomerates to more tightly focused operations, with an increasing emphasis on overseas activities. Within this trend, the diversity of activity tends to bear out the industry ministry's analysis that there is no "natural" sector for Finnish companies to concentrate on.

Nokia is a prime example. Since a spree of acquisitions in the 1980s, it has restructured to concentrate on mobile and fixed telecommunications systems, an area in which Finland has no special tradition.

Another group which has restructured since the 1980s is Huhtamäki, which now concentrates on confectionery, pharmaceuticals and food packaging. It is a collection which Mr Timo Peltola, the chief executive, cheerfully admits offers each other little in the way of synergies, but in which, he says, Huhtamäki has separately built up a store of expertise.

Hugh Carnegy

Christopher Brown-Humes on saunas

Apply the birch gently

THE foreign businessman on a trip to Finland should prepare himself for a visit to the sauna. The chances are that your host will invite you – all the big companies have their own saunas, but the venue could equally well be a hotel or public sauna. It could even be that that vital deal is clinched over a relaxing post-sauna drink.

The first thing the visitor should understand is that natural modesty needs to be cast aside. The Finnish custom is to take the sauna naked and any attempt to conceal business lunch flab or other physical attributes will only attract strange looks.

In principle, the routine is simple. You shower, you sweat in a wooden-planked hot-room for a few minutes, you cool down with a swim, and then you retire to drink, feeling the day's tension palpably ebbing from your system as you do so. The cycle is usually repeated at least twice.

However, the uninitiated should be on the alert. For a start, there is the question of how long you can stick the heat. Watch out for the sadist in your group who delights in throwing water onto the heated sauna stones to intensify the humidity. The paranoid will conclude he is doing it deliberately to test your resistance level.

Then you need to know how to handle the bundle of birch leaves which will almost certainly be thrust into your hand as you enter the hot room of a country sauna. It is not to be used to thrash your fellow bathers (despite the temptation to take revenge on the sadist) but gently applied to your own torso to stimulate circulation of the blood and aid perspiration.

Finally, there is the cold swim routine. In the countryside, that almost certainly means a plunge into a freezing lake, rather than a swimming pool. Your hosts will graciously tell you this bit is optional, but in practice it is as difficult to avoid as an invitation to sing in a Japanese karaoke bar.

Two notions need to be disabused. One is that you will be plied with liberal quantities of alcohol to assist the perspiration process. At public saunas, only soft drinks and alcohol-free beers are on sale. In a private sauna, it is more likely that you will be offered something stronger.

Secondly, you must forget the idea that you will be nudging up to a member of the opposite sex in the hot room. In all public saunas, men and women are strictly segregated.